



DRAFT ANNUAL BUDGET FOR 2015/2016 MTREF

**Medium Term
Revenue and Expenditure
Framework (MTREF)**

Table of Contents

Table of Contents	1
Glossary	3
PART 1 - ANNUAL BUDGET	6
Section 1 - Mayor's Budget Speech	6
Section 2 - Budget Related Resolutions	6
Section 3 - Executive Summary	8
Section 4 - Annual budget tables	23
PART 2 - SUPPORTING DOCUMENTATION	34
Section 5 - Overview of annual budget process	34
Section 6 - Overview of alignment of the annual budget with the Integrated Development Plan	36
Section 7 - Measurable performance objectives and indicators	39
Section 8 - Overview of budget related policies	41
Section 9 - Overview of budget assumptions.....	42
Section 10 - Overview of budget funding	45
Section 11 - Expenditure on allocations and grant programmes.....	46
Section 12 - Allocations and grants made by the Municipality	49
Section 13 - Councillor allowances and employee benefits	50
Section 14 - Monthly targets for revenue, expenditure and cash flow	51
Section 15 - Annual budgets and service delivery and budget implementation plans - internal departments.....	53
Section 16 - Annual budgets and service delivery agreements - municipal entities and other external mechanisms.....	55
Section 17 - Contracts having future budgetary implications	55
Section 18 - Capital expenditure details	55
Section 19 - Legislation compliance status.....	56
Section 20 - Other supporting documents	59
Section 21 - Municipal manager's quality certification	62

Glossary

Adjustments Budget - Prescribed in section 28 of the MFMA. The formal means by which a municipality may revise its annual budget during the year.

Allocations - Money received from Provincial or National Government or other municipalities.

AFS- Annual Financial Statements

Assessment Rates - Local Government tax based on the assessed value of a property. To determine the rates payable, the assessed rateable value is multiplied by the rate in the rand.

Budget - The financial plan of the Municipality.

Budget Related Policy - Policy of a municipality affecting or affected by the budget, examples include tariff policy, rates policy and credit control policy.

Capital Expenditure - Spending on assets such as land, buildings and machinery. Any capital expenditure must be reflected as an asset on the Municipality's Statement of Financial Performance.

CRR - Capital Replacement Reserve. A cash reserve set aside for future capital expenditure.

Cash Flow Statement - A statement showing when actual cash will be received and spent by the Municipality. Cash payments do not always coincide with budgeted expenditure timings. For example, when an invoice is received by the Municipality it is shown as expenditure in the month it is received, even though it may not be paid in the same period.

CFO - Chief Financial Officer

DORA - Division of Revenue Act. Annual legislation that shows the total allocations made by National to Provincial and local government.

Equitable Share - A general grant paid to municipalities. It is predominantly targeted to help with free basic services.

EPWP - Expanded Public works Programme.

FFC - Financial and Fiscal Commission.

Fruitless and wasteful expenditure - Expenditure that was made in vain and would have been avoided had reasonable care been exercised.

GIS - Geographic Information System.

GFS - Government Finance Statistics. An internationally recognised classification system that facilitates like for like comparison between municipalities.

GGP - Gross Geographic Product

GRAP - Generally Recognised Accounting Practice. The new standard for municipal accounting and basis upon which AFS are prepared.

IDP - Integrated Development Plan. The main strategic planning document of the Municipality

ISDF - Integrated Strategic Development Framework - The 20 year framework linking technical, financial and economic planning.

KPI's - Key Performance Indicators. Measures of service output and/or outcome.

MEC - Minister in Executive Committee (Province).

MFMA - The Municipal Finance Management Act - No. 53 of 2003. The principle piece of legislation relating to municipal financial management.

MTREF - Medium Term Revenue and Expenditure Framework. A medium term financial plan, usually 3 years, based on a fixed first year and indicative further two years budget allocations. Also includes details of the previous three years and current years' financial position.

MPAC - Municipal Public Accounts Committee.

MSAC - Municipal Service Accessibility Charge.
The municipal charge levied on the basic government electricity charge for municipal services available to the household.

NERSA - National Electricity Regulator of South Africa.

NT - National Treasury.

NDPG - Neighbourhood Development Framework Grant.

Net Assets - Net assets are the residual interest in the assets of the entity after deducting all its liabilities. This means the net assets of the municipality equates to the "net wealth" of the municipality, after all assets were sold/recovered and all liabilities paid. Transactions which do not meet the definition of Revenue or Expenses, such as increases in values of Property, Plant and Equipment where there is no inflow or outflow of resources are accounted for in Net Assets.

Operating Expenditure - Spending on the day to day expenses of the Municipality such as salaries and wages.

R&M - Repairs and maintenance on property, plant and equipment.

SDBIP - Service Delivery and Budget Implementation Plan. A detailed plan comprising quarterly performance targets and monthly budget estimates.

Strategic Objectives - The main priorities of the Municipality as set out in the IDP. Budgeted spending must contribute towards the achievement of the strategic objectives.

SCM - Supply Chain Management.

Unauthorised expenditure - Generally, spending without, or in excess of, an approved budget.

Virement - A transfer of budget.

Virement Policy - The policy that sets out the rules for budget transfers. Virements are normally allowed within a vote. Transfers between votes must be agreed by Council through an Adjustments Budget.

Vote - One of the main segments into which a budget is divided. In Knysna Municipality this means at directorate level.

PART 1 - ANNUAL BUDGET

Section 1 - Mayor's Budget Speech

Section 2 - Budget Related Resolutions

Knysna Municipality

MTREF 2015/16

The resolutions approved by Council with the final adoption of the budget in May will be:

RESOLVED:

[a]. That the annual budget of Knysna Municipality for the financial year 2015/2016; and indicative for the two projected years 2016/17 and 2017/18, as set-out in the schedules contained in [Section 4](#), be approved:

- 1.1 [Table A2](#): Budgeted Financial Performance (expenditure by standard classification) R679.9 million)
 - 1.2 [Table A3](#): Budgeted Financial Performance (expenditure by municipal vote R679.9 million)
 - 1.3 [Table A4](#): Budgeted Financial Performance (revenue by source R733.4 million including Capital Transfers and Contributions)
 - 1.4 [Table A5](#): Budgeted Capital Expenditure for both multi-year and single year by vote, standard classification and funding (R92.4 million)
- [b]. Property rates reflected in [Annexure 3](#) and any other municipal tax reflected in Annexure 1 are imposed for the budget year 2015/2016.
- [c]. Tariffs and charges reflected in [Annexure 3](#) are approved for the budget year 2016/2016.
- [d]. Council notes the amended Integrated Development Plan adopted on 31 May 2015 reflected as summarised in [Section 6](#).
- [e]. The measurable performance objectives reflected in [Section 7](#) are approved for the budget year 2015/2016.
- [f]. The amended policies for credit control, debt collection and indigents as summarised in [Section 8](#) (and detailed in [Annexure 6](#)) are approved for the budget year 2015/2016.
- [g]. The other new and/or amended budget related policies summarised in [Section 8](#) (and detailed in [Annexure 6](#)) are approved for the budget year 2015/2016.

[h]. The measurable performance objectives for each vote introduced in [Section 15](#) and detailed in Annexure 8: 'Service Delivery and Budget Implementation Plan' are noted for the budget year 2015/2016.

Section 3 - Executive Summary

Introduction

The budget for the financial year 2015/16 reflects the strategy and priorities of the Knysna Municipality within those of the Province of the Western Cape as well as the priorities and strategies of the National Development Plan and the strategic thrusts as enunciated by Minister Pravin Gordhan in his position paper on local government summarised in the slogan “Back to Basics”. Changes in policy and direction cannot simply happen overnight but in the last four Council budgets there have been significant shifts in Council thinking whilst maintaining at all times a synergy with the Constitutional requirements of local government in respect of basic services and within the general dictates of National Treasury guidelines.

However the malaise that the Knysna economy is in continues. Whilst there is no doubt that the recent holiday period continued to show some depth and expansion from previous years and that there are now the beginnings of some economic green shoots appearing by way of interest in residential construction linked to higher end property, it is highly unlikely that the economic position of Knysna will change much in the next three to four budget cycles at least. Unfortunately the infamous Eskom factor has also come back to haunt municipal finances with a 14.69% increase, a demand for cost reflective tariffs on water and sewer and a first round union pay demand of a basic 15% rise.

The new budget for Knysna Municipality amounts to some R772.4 Million in 2015/16, being R92.5 million for capital and R679.9 million for operating. The budget approved for 2014/15 was R540.7 million and R70.1 million for operating expenditure and capital expenditure respectively and this new budget represents an increase of 26% from the 2014/15 approved budget and 10% from the 2014/15 adjusted budget. In the 2013/14 financial year the capital budget spend only managed to achieve a level of 91%. A capital spend in excess of 95% is now forecast for the 2014/15 year.

Consolidated Overview of the 2015/2016 MTREF					
R thousand	Original Budget	Adjustments Budget	Budget Year	Budget Year +1	Budget Year +2
	2014/15	2014/15	2015/16	2016/17	2017/18
Total Operating Revenue (excluding capital transfers)	536 766	617 962	677 101	753 620	820 560
Total Operating Expenditure	540 748	613 352	680 377	730 280	776 013
Surplus/(Deficit) for the year	(3 981)	4 611	(3 276)	23 340	44 547
Total Capital Expenditure	70 174	89 134	92 473	70 240	58 992
Transfers recognised - capital	39 484	50 667	56 265	46 586	41 027

There have been serious concerns in regard to the lack of long term planning necessary for Knysna over the next 20 years. Previous plans were essentially short term or even “gimmicky” but lacked the depth necessary to move Knysna forward. A decision was taken to begin a new long term planning process, predominantly in-house, by means of a very exhaustive but inclusive Integrated Spatial Development Framework (ISDF). The proposed ISDF will be constantly referred to in this MTREF as it will become the most critical long-term planning tool of the Knysna Municipality and by including the simple word “Integrated” it means that for probably the first time, technical, financial and ultimately economic planning will talk to each other. The ISDF looks on a far longer horizon than mere Integrated Development Plans (IDP) and whilst no specific capital projects have yet been identified for ISDF purposes, they are obviously part and parcel of the revised IDP. The ISDF has now been presented to Councillors and will go through another extensive public participation exercise. The importance of the ISDF cannot be over-emphasised. ALL Council technical master planning will be placed within its over-arching umbrella.

In tandem the Finance Directorate has embarked on a major debt restructuring exercise to work in conjunction with the ISDF to finance investment and economic based capital infrastructure identified for inclusion in the budget via the IDP as flowing from the ISDF. This will ensure the MTREF remains practical and therefore economically and financially sustainable rather than the often theoretical and usually meaningless planning followed by public sector bodies.

Despite the on-going economic concerns, Knysna municipality continues to grow albeit slowly. However the demands of all our residents grow faster. It is very clear that more and more demands for services are coming from areas where services and service standards were historically poorer in comparison to more advantaged and well established areas. It is also very clear that the more advantaged areas are demanding that service levels and standards be maintained at least at current levels and not be allowed to fall. It is the continuing classic legacy of apartheid. Two realities emerge from this. Firstly, to believe that all areas can reach the same levels and standards within twenty years is simply naive and not grounded in financial reality. Many well-established areas of Knysna Municipality have taken, in some instances, hundreds of years and millions of rands to reach their current mature service levels. Other areas have been paid for solely by the property owners themselves. Secondly, to maintain well-established areas at their current levels and up-grade others at the same time cannot continue under the current funding regime. In the next few years Knysna is going to be doing “less with even less”. The movement towards communities wanting and receiving a higher standard level by means of an additional premium will become the norm. Special rating districts or areas already exist in metros and other municipality’s. These are now being investigated within the greater Knysna community and must be welcomed and supported.

Background

It has been said repeatedly over recent years that Knysna is a rather boring municipality if one looks at all the relevant financial ratios. The exception has been that we were one of the most heavily geared local authority's in South Africa let alone the Western Cape. We did this to maximise service delivery. If we hadn't then low income houses would not have been built because we would not have been able to put the services in and sewerage would have been pouring into the lagoon. Our water would have been undrinkable and the local tourist economy would have collapsed. Municipality's must spend moneys even to stand still and our inflation rate is not CPI. It is CPI plus about 3%.

All other ratios place us firmly in the category of financially competent. In other words we pay our way, but only just. This means that we remain very vigilant in our cash management.

Residents and politicians often question as to whether our services are wrong, or that we spend moneys on the wrong things. The growing reality is that under the current national funding regime our services are probably too many and our standards too high. An example of this is a new proposal from national government whereby local government should become responsible for early childhood development. The proposal is fully supported but the reality is that we cannot do it justice if it is not fully funded from the fiscus. However blaming the state for the financial ails of local government is easy. This council must always continually strive to critically examine and eliminate wastage at all times.

Notwithstanding the above Council has reduced its indebtedness from over R160m in 2012 to R120 million currently and National Treasury has begun to increase our Equitable Share in accordance with influx demands along the N2 axis. This Council also showed remarkable foresight by deciding to invest some of the increased IGT into our Capital Replacement Reserve (CRR) for long term asset replacement. The debt reduction also allows scope for looking at increasing our borrowings. However we need to shift our internal expenditure patterns to ensure that national and provincial capital grant funding is aimed at low income and basic service delivery infrastructure and that borrowed moneys are aimed at economic growth and ultimately job creation projects. If we can ring-fence on this basis the possibility of maintaining some form of market growth and long term financial sustainability remains. If we do not then Knysna will start moving into care from 2017.

Situated in a national park, Knysna is and shall remain for the foreseeable future a residential municipality. Approximately 80% of Council revenue, excluding governmental transfers, comes from the domestic residential sector and some 36% of that is classified as being indigent/social welfare. There is little scope for cross-subsidisation from the business sector in relief

of the domestic account and therefore increases in tariffs impact directly upon domestic consumers and hence almost immediately upon the municipality's cash flow. Increased taxation will invariably mean increased non-payment.

Knysna is a holiday destination and a retirement town. A number of Knysna property owners do not actually live in the municipality for home purposes and so generate little in the way of economic development. However Knysna must fund itself and provide services as if it were a twelve month municipality whilst only operating on at best six month revenues. There is therefore an obvious mis-match between revenues and service demands and that is before we can consider eradicating service backlogs in our previously disadvantaged areas or maintaining services in advantaged areas. A classic example of this was in regard to the road maintenance budget which needed to be used to maintain our tourist and therefore revenue generating areas in the first instance over the holiday period. This type of service level decision-making is symptomatic of the problems of Knysna. Do we first maintain to perpetuate growth or do we increase levels at the potential expense of growth. To this end the Director: Finance is undertaking a review and analysis of the utilisation of domestic property by means of measuring electricity usage. The possibility of introducing an absentee property owners charge will then be examined (similar in principle to the electricity daily charge) for possible future introduction.

The major economic sectors within Knysna are retail and retirement. These are heavily dependent upon the economy at a national level and neither could claim to be major forces in the drive for job creation. Much of Knysna's retail property is owned by businesses outside Knysna and any profits obviously flow outside of Knysna. The Director: Finance is also looking at a differential rates tariff for businesses owned within Knysna as opposed to those owned externally.

The Manufacturing and Construction sectors, taken together, account for less than 25% of GGP. General Government and Community Services less than 15%. The Knysna Municipality clearly therefore has major long term economic financial challenges requiring high end growth or targeted government intervention. The national government "back to basic" campaign whilst very laudable from a national perspective has the potential of destroying the local economy because it will have a very limited return on investment potential. Knysna municipality must therefore manage the "back to basics" approach in such a way that it integrates seamlessly into the ISDF and IDP from a financial perspective.

The continued poor economic conditions mean that Knysna needs to maintain its fiscal discipline. In December 2012, Council took the decision to write-off what ultimately amounted to R30 million in service arrears. In 2013 Council took the decision to further accelerate the programme of prepaid electricity meters. In 2015 a new tender will be awarded to undertake the general valuation of all properties in the municipal area. This will include all

transferred properties in the so-called Northern areas. From 1 July 2016 all privately owned properties will be fully taxed in all areas. It could be argued that this should have happened years ago but few people outside the municipal process actually understand the complexity that is land ownership between and within governmental bodies. For many years Knysna municipality was building houses on land with provincial money on the promise that the land would be transferred to the housing beneficiary only to find out that the land could not be transferred without a myriad of legal and planning processes for which there was no budget.

The table below indicates the projected revenues of the municipality for the MTREF period under review.

WC048 Knysna - Table A4 Budgeted Financial Performance (revenue and expenditure)								
Description	Current Year 2014/15				2015/16 Medium Term Revenue & Expenditure Framework			% Increase
R thousand	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18	
Revenue By Source								
Property rates	159 457	159 457	159 457	159 457	175 403	188 535	201 733	10%
Property rates - penalties & collection charges	2 804	2 804	2 804	2 804	3 056	3 331	3 631	9%
Service charges - electricity revenue	193 213	188 213	188 213	188 213	217 731	245 359	276 495	16%
Service charges - water revenue	48 904	48 904	48 904	48 904	54 036	67 132	71 829	10%
Service charges - sanitation revenue	11 469	11 469	11 469	11 469	12 618	13 499	14 445	10%
Service charges - refuse revenue	15 352	15 352	15 352	15 352	16 886	18 575	20 433	10%
Service charges - other	3 648	3 648	3 648	3 648	3 975	4 333	4 722	9%
Rental of facilities and equipment	5 030	5 030	5 030	5 030	5 482	5 977	6 516	9%
Interest earned - external investments	2 346	2 346	2 346	2 346	3 200	3 400	3 600	36%
Interest earned - outstanding debtors	3 250	3 250	3 250	3 250	3 542	3 753	4 089	9%
Fines	15 111	78 111	78 111	78 111	79 471	86 623	94 418	2%
Licences and permits	1 998	1 998	1 998	1 998	2 179	2 331	2 541	9%
Agency services	1 800	1 800	1 800	1 800	1 850	1 950	1 960	3%
Transfers recognised - operational	68 844	91 990	91 990	91 990	93 803	104 483	108 783	2%
Other revenue	3 291	3 341	3 341	3 341	3 619	4 089	5 115	8%
Gains on disposal of assets	250	250	250	250	250	250	250	0%
Total Revenue (excluding capital transfers and contributions)	536 766	617 962	617 962	617 962	677 101	753 620	820 560	10%
Transfers recognised - capital	39 484	50 667	50 667	50 667	56 265	46 586	41 027	11%
Total Revenue (including capital transfers and contributions)	576 250	668 630	668 630	668 630	733 366	800 206	861 587	10%

The Equitable Share and Revenue Stresses

For years Knysna Municipality raised concerns about the financing of local government in general and the amount of our Equitable Share in particular. A few years ago commentary was passed in this same document that “the financing of local government is archaic and totally unsuitable for the 21st century”. The Financial and Fiscal Commission (FFC) has now expressed similar concerns in this regard. It does appear that National Treasury has at last become aware of the problem and the new Equitable Share formula is at least based on the latest census figures.

The Equitable Share has increased from R44.8 million in the current year to just under R56.2 million in the forthcoming financial year and rising to R62.2 million and R67.8 million over the outer years of the MTREF period.

The challenge for the municipality is how to allocate the increased grant. Council passed a resolution in May 2013 that from 1 July 2014 amendments would be made to both the Funding and Reserves Policy and the Budget Policy, whereby forty percent of the increased equitable share over a normal CPI adjustment will be allocated directly to repairs and maintenance and forty percent to the CRR for future infrastructure. The balance is for the revenue account.

The only Directorates who have been allowed growth are Cleansing, to ensure the Municipality maintains itself as a tourist destination, Roads, to assist in the on-going battle against potholes, Water, to mitigate against potential water shedding as it is now euphemistically called in lieu of the Eskom crisis and the Municipal Managers section to complete the organisational restructure and improve Council's communication and reporting as requested in the national "back to basic" campaign and Finance reporting where most of the increased funding is actually government grant supported for the national mSCOA project.

Eskom is once again going to become a massive concern in the forthcoming financial years. It is not simply the upwards effect of increased tariffs and the downward effect on operating revenues and cash flow but there are now clear implications of load shedding upon Council's water and sewerage reticulation systems.

Knysna has ten different water and sewerage reticulation systems that have been designed around the distinct geographical attributes of the various communities they serve. They are of varying age, they operate on different platforms and have different equipment requirements and obviously have very limited economies of scale. The topography that the systems operate in also means that they require enormous and costly amounts of energy to be consumed pumping in water up and down hills. Collectively, the services are too expensive to have tariffs that are cost reflective. Simply to break even the water service will require increased revenues amounting to 12%. Load shedding also means that many of the pumping stations all now require large diesel generators as back-up systems and emergency plans drawn up in the event of prolonged power outages. The Council reticulation systems are now at a serious risk level.

Similarly the solid waste service is also financially paralysed because of the municipality's geographical location. The only refuse dump for Knysna is at least 100 kilometres away. This means that Knysna has to build into its collection costs daily round trip charges of over 200 kilometres.

The approved NERSA increase is 14.69% for bulk electricity purchased from ESKOM. The amount allowed for pass on to consumers is only 12.25%. The difference of 2.69% equates to an automatic rates increase of 1.8%.

We are also aware of the discussions taking place to increase the 14.69% to 25%.

The municipal unions are current involved in salary negotiations and have requested an increase of 15%. To put that in perspective it means a rates increase of 18.7%. National Treasury would have us believe that we should be looking at a maximum 6% salary increase which means a rates increase of over 8%. Neither of these provide the municipality with the revenues it requires. The expected salary increase of 8.5% equates to 11% on rates. For the purposes of this budget, at this stage, a rates increase of 9% is proposed.

Auditor-General

Knysna Municipality has now attained seven unqualified audit reports in a row with the last two being “clean”. Whilst having a clean audit rather than an unqualified audit has absolutely no effect on the financial stability or performance of this Council it does have a considerably positive effect upon the sentiment of the investment and banking sectors, in all their facets locally and internationally. It is therefore remarkable that locally there remains a very minor, but ignorant and voluble local group, who appear to want nothing more than to criticise Knysna’s very considerable achievements for reasons that are impossible to understand.

Knysna Municipality has embraced the concept of “clean” governance and we will endeavour to attain the levels requested by Provincial government by 2021.

Legislative compliance, good governance and clean audits require competent and quality staff at middle management throughout Council directorates. The Finance Directorate requires staff who are IT and financially multi-skilled. It does not need more “clerks” who are already under-graded for the work they do. Quality not quantity and a review of the whole grading system will be undertaken in tandem with the current restructuring process. The most recent Auditor-General report states:

“Leadership did not implement effective human resources management to ensure that adequate and sufficiently skilled resources are in place in key finance functions”.

It is not our intention to expand our staff structure, but to train, up-skill and re-engineer our administrative staff to grow from within.

The biggest cost driver in the municipality remains the employee bill. National Treasury has suggested that Council’s budget for an increase of 6% in employee related costs. The unions on the other hand have requested 15%. The budgeted outcome at 6% is actually closer to 9% after medical and various other staff provisions are made.

Budget Summary

Most of the basic information surrounding this year's budget is set out in 'Table A1: Budget Summary' shown in Section 4 of this document.

The anticipated final outcome of the current 2014/15 budget is that Council will end with a surplus after all transfers of R50.6 million. This is comfortably above the original budgeted figure of R39.5 million.

The capital expenditure emphasis remains on water and particularly sewerage infrastructure. We would dearly like to change this approach as water and sewerage capital expenditures are inordinately expensive to fund and more importantly maintain each year, however the continued influx from the Eastern Cape and from across our borders proving to be beyond our affordability. The municipality fully supports the very welcome continued movement by the Western Cape Provincial Government to enable Knysna to use more of the Housing grant for infrastructure rather than top structure purposes. Until 2012 Knysna had almost exclusively picked up the cost of the attendant heavy infrastructure associated with housing which created serious financial concerns which will continue to impact for years to come. The sheer volume capacity concerns on the ageing infrastructure obviously remain and will also continue to be of concern for many years to come. The Knysna municipality sits within a national park containing vleis and an estuary of huge national and international significance and yet Council is expected to maintain and manage a massively complex industrial and financial edifice. Sadly the solution will only become apparent when the Knysna sewerage works can no longer cope with the increased demands being placed upon it and the estuary becomes seriously polluted. Perhaps then the folly of Knysna trying to manage sewerage and water services in a scenario of declining revenues will become obvious to all.

Knysna as stated is a municipality that is predominantly domestic in its tax base. The core town of Knysna is in itself 70 kilometres from nowhere and the majority of people that wish to relocate remain retirees or from the Eastern Cape. Neither of these groupings offer much in the way of disposable income for inward investment purposes nor do they encourage much economic growth outside of tourism. The downturn in the national economy has meant that development has virtually ceased and this in turn has led to a position whereby unless the position can be reversed quickly Knysna will be in terminal decline. For this reason Council has taken the decision to fast-track economic development at all levels.

A number of measures have been implemented. The most successful has been the drive and emphasis by the Supply Chain department to target local contractors for Council business. By the end of this financial year it is estimated that the local portion of Council's discretionary spend will have risen from R77 million in 2012 to R177 million in 2015. A very positive achievement!

Council has also introduced incentives aimed at subsidising, delaying or even waiving development contributions depending upon the type and locality of the development. In 2013 it introduced a rebate to attract new business by means

of a rates holiday. The national economic conditions have not been conducive to successful implementation but with the ISDF as an umbrella framework, a targeted economic approach to be implemented along the northern areas and a debt restructuring to facilitate revenue based asset purchases, it is hoped that a reversal in economic conditions will soon prevail.

There has been a small but noticeable growth in younger, wealthier households. This in turn has led Council to again explore the possibility of investigating mechanisms to attract technology related businesses. The CFO and the Director: Planning have initiated a proposal call to bring high speed interconnectivity to Knysna. A report back on progress will be given early in the new financial year.

Financial position and MTREF strategy

The financial position of Knysna Municipality is set out in 'Table A6: Budgeted Financial Position'. It is projected that Council at the end of the 2015/16 financial year will close with an accumulated surplus of some R850.3 million. The reality of course is that this figure ultimately includes the value of our property, plant and equipment much of which are community assets and cannot easily be turned into cash. You cannot sell a road or a cemetery at the values placed on them. The only realistic figures to look at are those contained in Table A8 and specifically the surplus or shortfall figure. That shows the increased reserves which are required to be cash backed and a surplus figure of only R21.7 million. Prioritising forward, this surplus is sadly only moving sideways. Savings are required which will supplement the surplus in the future. It would be excellent if the surplus figure was much higher but Knysna municipality has always taken the position that our assets should be in the ground working for the community rather than in the bank providing no service delivery.

Cash Flow

Knysna has a high, albeit declining, debt to revenue ratio. This has been commented on by rating agencies and occasionally by Provincial Government but it has not been of concern because of our approach whereby the whole budget process is driven to ensure the cash flow is protected as far as possible. Nevertheless Council has followed the policy in recent years of trying to limit its borrowings as far as possible, precisely because of concerns regarding the economy. To-date, that policy has proven prudent and entirely correct.

Capital Budget

The capital budget for 2015/16 will amount to R92.5 million of which R56.3 million is funded from National and Provincial grants and R21.5 million from internally generated funds and R14.7 million from borrowings. Council is continuing the process begun two year ago of rebuilding and upgrading municipal buildings and assets including sportsfields, libraries and halls.

An amount of R29 million has been placed on the budget for housing and related infrastructure. The other major capital projects for the next year are R3.2 million for the Smutsville MPC; R6 million for high-mast lighting; R4.7 million for the rehabilitation of the Segefield WWTW; R13 million for roads upgrades, R4.3 million for water projects mainly from Council's own funding contribution towards our national MIG allocation and R8 million for the new 20MVA transformer station. This project will enable Council to fully up-grade the reticulation networks in Hornlee and our Northern Areas.

The 2015/16 capital projects in wards will be reduced to R150 000 per ward and the programme and R500 000 will be allocated under Community Services for Operating Related Council Projects and this will be fully integrated with the ward based development programme. National Treasury insists that all the projects must be identified and specified in the budget if they are of a capital nature. The final projects and programmes will be included in the approved municipal budget and performance against the budget will be reviewed quarterly.

40% of the capital budget should be for renewal as opposed to new infrastructure. The forthcoming budget indicates that renewal expenditure will amount to 69% (R64.2 million) of total capital expenditure. This reinforces the fact that the infrastructure demands being placed upon the municipality are reaching an unhealthy point. We spend simply to stand still and are not growing the municipality. This further reinforces the need to review and reduce expenditure on issues that are not our functions or are not basic services.

The table below highlights two indicators as taken from Table SA8 namely, those regarding capital charges and cost coverage. These indicators are two of the most critical that any potential investor or lender will look at, obviously in conjunction with issues such as payment levels etc.

WC048 Knysna - Supporting Table SA8 Performance indicators and benchmarks										
Description of financial indicator	2011/12	2012/13	2013/14	Current Year 2014/15				2015/16 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
Borrowing Management										
Capital Charges to Operating Expenditure	4.8%	6.7%	7.4%	6.4%	5.3%	4.7%	4.7%	5.3%	4.8%	5.2%
Capital Charges to Own Revenue	8.0%	7.7%	8.9%	7.4%	6.2%	5.4%	5.4%	6.2%	5.4%	5.7%
iii. Cost coverage	1.7	1.5	0.5	0.8	0.3	0.4	0.4	0.3	1.2	2.3

The indicators show that the municipality is managing its obligations well and should remain capable of being able to borrow moneys from the capital market at competitive rates and when necessary for the period of the MTREF for the foreseeable future.

Tariff Implications of the Annual Budget

Electricity Tariff

The National Electricity Regulator (NERSA) has approved an increase in the bulk tariff from Eskom of 14.69%. National Treasury in MFMA Circular No. 74 advises "to limit electricity increases to 12%" and that in regard to the Inclining Block Tariff (IBT) structure "maintain an appropriate balance

between low income consumers and other domestic commercial and business customers and the financial interests of the municipality”.

Water Tariff

The Provincial Treasury has indicated that the domestic water tariffs of Knysna municipality are amongst the highest of any B category municipality in the Western Cape. With the greatest respect to Provincial Treasury this is a classic example of bureaucrats looking at figures without understanding what lies behind those figures. Knysna is topographically inefficient with over 100 pump stations. National Treasury now requires municipalities to have cost reflective tariffs. The bottom line of that means if you want to live in Knysna then you must understand that you are going to have to pay for the privilege, most specifically for water, sewerage and refuse removal.

The water tariff increases are projected to be on average 10.5%. Council is presently looking at whether the increases will be across the board or across specific tariffs. He is also examining as to the possibility of scrapping the free first 6kl for non-indigents and charging from the first kl.

2% of the increased tariff will again be allocated to the Capital Replacement Reserve (CRR) for water. National Treasury has decreed that all CRRs must be cash-backed and the anticipated costs associated with the water service, most specifically the need to expand the treatment works in Knysna, means that monies must be set aside now to mitigate the future costs of the works.

The irony of this is that under mSCOA, the CRR will cease to exist.

Sewerage Tariff

The sewerage tariffs are presently forecasted to increase by 10%. In this instance a portion of the increased revenue will be channelled to the CRR for the projected further up-grading/replacement of the wastewater treatment works next to the Knysna Estuary beginning in 2018.

Refuse Tariff

The refuse tariff is presently forecasted to increase by 10% for both domestic and business consumers.

Minor Tariffs

Minor tariffs will be increased by 9% on average unless specifically shown in the tariff book.

Availability Charges-Vacant land

The increases proposed are 7.5% in 2015-16

Augmentations

The water and sewerage augmentation charges will be increased by 7,5% for next year and the innovations introduced in the 2014/15 budget remain in place to encourage development. The electricity augmentation is formula driven and subject to NERSA.

Assessment Rates

The proposed increase in the rate in the rand at this stage will be 10% for domestic properties and for non-domestic properties.

Assessment Rate Rebates

The rebate currently applied to domestic owners remains at 15%. This is in line with National Government view that rebates should only apply in particular circumstances. It remains the intention to completely phase out the domestic rebate in future budgets.

The first R100 000 of value will remain exempted.

The current Rural Rebate is reduced to 10% and will be phased out completely from 2016/17 onwards. Assessment rates are a tax on property value. They are not for services rendered or not rendered by a municipality. There is therefore no justification in maintaining a two tier rebate system indefinitely.

Current pensioner rebates will remain the same

The green rebate will also be reduced to 10% for the forthcoming financial year and strictly applied. That means that receiving developments which are gated will not qualify. The retention of the green rebate is highly questionable as there is no evidence of it making any difference within the local area.

No change is proposed to the Heritage Rebate.

No change is proposed to the New Business Rebate.

National, Provincial & District priorities

The National, Provincial and District Context

The Municipality's budget must always be seen within the context of the policies and financial priorities of National and Provincial government. All spheres of Government are partners in meeting the service delivery challenges we face in Knysna and the municipality cannot meet these challenges alone. South Africa has achieved considerable success in reaching the current level of macroeconomic stability notwithstanding the current

world economic situation, but our own local economy is still plagued with levels of unemployment and poverty which are higher than the provincial norm.

The following table shows the allocations to Knysna Municipality as set out in the National Division of Revenue Bill of 2015 in the MTEF period;

National Government

Allocations 2015/16 - 2017/18			
	Medium Term Estimates		
	2015/16 Allocation (R'000)	2016/17 Allocation (R'000)	2017/18 Allocation (R'000)
Total Allocation	113 310	130 048	158 087
Equitable share	56 163	62 237	67 761
Infrastructure	53 765	65 379	87 743
Capacity building and restructuring	3 382	2 432	2 583

Provincial Government

	2015/16 Allocation (R'000)	2016/17 Allocation (R'000)	2017/18 Allocation (R'000)
Total Provincial Transfers to Knysna	58 666	57 262	50 259

Back to Basics

The table below details the categorisation of municipalities in the Western Cape as set out by Minister Gordhan's "Back to Basic" campaign. As can be seen, despite the views of a vociferous minority, Knysna is doing well. To continue to do well Knysna will have to undertake a number of significant changes in the manner it does its business.

Categorisation of WC Municipalities			
MUNICIPALITIES THAT ARE ...			
... DOING WELL	... STABLE	... JUST FUNCTIONAL	... IN ICU
City of Cape Town	Overberg DM	Prince Albert LM	Oudtshoorn LM
Overstrand LM	Saldanha Bay LM	Matzikama LM	Kannaland LM
Theewaterskloof LM	Bergrivier LM	Cape Agulhas LM	
West Coast DM	Eden DM	Laingsburg LM	
Swartland LM	Drakenstein LM	Beaufort West	
Breede Valley LM	Stellenbosch LM	Central Karoo DM	
Langeberg LM	Cape Winelands DM	Cederberg LM	
George LM	Hessequa LM	Swellendam LM	
Mossel Bay	Bitou LM		
Witzenberg LM			
Knysna			
11	9	8	2
Department: Cooperative Governance REPUBLIC OF SOUTH AFRICA	2015/01/20		7

The first of these is in regard to service delivery. Service delivery audits will become a standard feature of the Auditor-General reporting requirements in the next two years. This in turn will place great pressure on Council to develop and improve on its internal and external reporting and communication systems.

Secondly the mSCOA project of National Treasury and the resources required, human and financial, to undertake it successfully will impose strains upon the administration. mSCOA is not a simple financial system change it is a change in the manner in which Council undertakes and reports on its business activities.

Thirdly, Council is going to have to do “less with even less”. The financial resources of Council are going to be placed under the most severe pressure in the next three years and this is despite the almost doubling of the equitable share over the last three years. Knysna requires high end ie. wealthy, economic growth and to pretend otherwise is simply acting like an ostrich. Knysna’s natural resources must be harnessed and packaged and used to complement Knysna’s economy. They are one and the same.

Conclusion

The 2015/16 budget for Knysna Municipality is not a pleasant budget. Knysna has maintained a high level of service delivery for a number of years mostly at its own cost. The topography of Knysna is such that the basic services we are constitutionally obliged to perform means that they will always cost more than other municipality’s. When Eskom raises its tariffs the knock-on effect on all Knysna tariffs is substantial.

Knysna remains a tourist venue and a domestic town. It is therefore closely dependent upon national economic conditions. Knysna must make a decision as to whether it wishes to try to grow and expand or deteriorate and move into financial apathy with minimal service levels.

Section 4 - Annual Budget Tables

The intention of this Section is two-fold.

Firstly, the following tables form the basis of the Council resolution approving the annual budget for 2015/2016:

- Table A2: Budgeted Financial Performance (expenditure by standard classification)
- Table A3: Budgeted Financial Performance (expenditure by municipal vote)
- Table A4: Budgeted Financial Performance (revenue by source)
- Table A5: Budgeted Capital Expenditure for both multi-year and single year appropriations by vote, standard classification and funding

Secondly, this section presents and explains the various tables that must be compiled as required by National Treasury. Some of the tables are variations on a theme which will allow NT to put out macro statistics. Whilst this is a good practice, it can become a tad repetitive at the micro or local level. It has therefore been decided to only comment on a table when there is something important or relevant to say.

Table A1 - Budget Summary

WC048 Knysna - Table A1 Budget Summary

Description	2011/12	2012/13	2013/14	Current Year 2014/15				2015/16 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
Financial Performance										
Property rates	127 721	142 475	147 030	162 261	162 261	162 261	162 261	178 459	191 866	205 364
Service charges	226 549	241 302	252 538	272 586	267 586	267 586	267 586	305 246	348 898	387 924
Investment revenue	6 667	6 589	5 944	2 346	2 346	2 346	2 346	3 200	3 400	3 600
Transfers recognised - operational	89 231	83 819	89 804	68 844	91 990	91 990	91 990	93 803	104 483	108 783
Other own revenue	57 277	35 518	66 614	30 730	93 780	93 780	93 780	96 393	104 973	114 889
Total Revenue (excluding capital transfers and contributions)	507 444	509 703	561 930	536 766	617 962	617 962	617 962	677 101	753 620	820 560
Employee costs	139 676	153 828	170 268	173 706	181 491	181 491	181 491	201 541	217 447	232 214
Remuneration of councillors	5 619	5 908	6 240	6 665	6 665	6 665	6 665	6 817	7 294	7 804
Depreciation & asset impairment	148 738	21 403	22 234	28 199	28 199	28 199	28 199	29 146	32 544	34 749
Finance charges	16 686	14 876	14 488	18 493	14 499	14 499	14 499	16 568	15 586	16 520
Materials and bulk purchases	124 337	140 439	145 522	154 079	146 676	146 676	146 676	165 110	174 825	189 690
Transfers and grants	5 784	5 610	5 001	5 514	5 464	5 464	5 464	5 556	5 665	5 781
Other expenditure	251 692	152 978	203 290	154 093	230 358	230 358	230 358	255 640	276 919	289 255
Total Expenditure	692 532	495 042	567 043	540 748	613 352	613 352	613 352	680 377	730 280	776 013
Surplus/(Deficit)	(185 088)	14 662	(5 113)	(3 981)	4 611	4 611	4 611	(3 276)	23 340	44 547
Transfers recognised - capital	30 679	41 023	39 272	39 484	50 667	50 667	50 667	56 265	46 586	41 027
Contributions recognised - capital & contributed assets	777	695	4 589	—	—	—	—	—	—	—
Surplus/(Deficit) after capital transfers & contributions	(153 632)	56 379	38 749	35 503	55 278	55 278	55 278	52 989	69 926	85 574
Share of surplus/ (deficit) of associate	—	—	—	—	—	—	—	—	—	—
Surplus/(Deficit) for the year	(153 632)	56 379	38 749	35 503	55 278	55 278	55 278	52 989	69 926	85 574
Capital expenditure & funds sources										
Capital expenditure	60 268	75 079	77 263	70 174	89 134	89 134	89 134	92 473	70 240	58 992
Transfers recognised - capital	30 679	38 363	40 132	39 484	50 667	50 667	50 667	56 265	46 586	41 027
Public contributions & donations	777	446	4 519	—	—	—	—	—	—	—
Borrowing	13 094	23 105	14 318	16 695	17 105	17 105	17 105	14 732	11 570	9 660
Internally generated funds	15 718	13 165	18 294	13 995	21 363	21 363	21 363	21 476	12 084	8 305
Total sources of capital funds	60 268	75 079	77 263	70 174	89 134	89 134	89 134	92 473	70 240	58 992
Financial position										
Total current assets	129 270	131 528	107 905	124 787	103 850	102 079	102 079	100 996	140 182	201 907
Net non current assets	849 969	900 178	956 742	1 018 637	1 018 839	1 018 839	1 018 839	1 083 177	1 121 941	1 147 312
Total current liabilities	94 692	105 418	112 181	117 274	108 026	102 168	102 168	108 337	112 549	116 113
Total non current liabilities	236 725	223 267	210 901	228 039	217 820	221 906	221 906	226 004	229 815	227 773
Community wealth/Equity	647 822	703 020	741 566	798 110	796 844	796 844	796 844	849 833	919 759	1 005 333
Cash flows										
Net cash from (used) operating	68 828	79 820	77 636	67 849	87 006	84 079	84 079	97 275	118 507	135 803
Net cash from (used) investing	(62 490)	(71 422)	(79 299)	(71 624)	(90 045)	(90 045)	(90 045)	(93 234)	(71 058)	(59 869)
Net cash from (used) financing	(8 144)	(17 740)	(27 194)	759	(290)	3 796	3 796	(4 536)	(7 333)	(13 949)
Cash/cash equivalents at the year end	55 503	46 161	17 303	27 551	13 973	15 132	15 132	14 638	54 753	116 737
Cash backing/surplus reconciliation										
Cash and investments available	72 887	65 186	38 738	49 532	36 694	37 852	37 852	39 855	81 164	144 400
Application of cash and investments	22 673	15 159	20 321	36 558	29 903	24 444	24 444	36 789	48 696	59 560
Balance - surplus (shortfall)	50 215	50 027	18 417	12 974	6 791	13 409	13 409	3 066	32 467	84 840
Asset management										
Asset register summary (WDV)	829 519	878 857	933 090	971 184	939 827	994 025	1 057 352	1 057 352	1 095 048	1 119 291
Depreciation & asset impairment	148 738	21 403	22 234	28 199	28 199	28 199	28 199	29 146	32 544	34 749
Renewal of Existing Assets	35 138	37 898	36 974	23 441	22 255	22 255	22 255	29 355	17 246	15 336
Repairs and Maintenance	22 025	22 515	30 689	34 796	35 602	35 602	46 037	46 037	44 117	46 655
Free services										
Cost of Free Basic Services provided	35 922	38 464	38 464	11 807	11 807	11 807	12 161	12 161	12 526	12 526
Revenue cost of free services provided	39 574	49 713	50 534	49 543	49 543	49 543	52 267	52 267	56 251	56 251
Households below minimum service level										
Water:	1	1	1	—	—	—	—	—	—	—
Sanitation/sewerage:	5	4	3	5	5	5	5	5	5	5
Energy:	7	7	7	8	8	8	9	9	9	9
Refuse:	2	2	2	—	—	—	—	—	—	—

Revenue

Total revenue before capital transfers and contributions will increase by 26% from last years' original budget and 10% from the final estimated budget.

Expenditure

Employee costs will rise by 11% on the 2014/15 adjustment budget figure. This includes an annual increase of 6% on basic remuneration plus sufficient allocation on the Provision of the Employee Benefits. This was over spent in 13/14 financial and Actuarial reports indicate a further high percentage increase going forward than budgeted for.

The repairs and maintenance budget for 2015/16 will increase by 29% on the adjusted budget figure for 2014/15.

Table A2 - Budgeted Financial Performance (by standard classification)

WC048 Knysna - Table A2 Budgeted Financial Performance (revenue and expenditure by standard classification)

Standard Classification Description	Ref	2011/12	2012/13	2013/14	Current Year 2014/15			2015/16 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
R thousand	1									
Revenue - Standard										
<i>Governance and administration</i>		187 031	168 465	170 056	181 479	183 057	183 057	200 895	225 596	241 964
Executive and council		37 772	10 138	8 845	6 414	6 414	6 414	8 491	9 596	10 584
Budget and treasury office		137 945	153 000	157 100	170 300	171 318	171 318	187 483	210 782	225 645
Corporate services		11 313	5 327	4 111	4 765	5 324	5 324	4 921	5 218	5 735
<i>Community and public safety</i>		71 761	78 960	115 501	57 861	145 565	145 565	144 618	150 292	151 395
Community and social services		1 466	2 168	10 650	8 691	8 777	8 777	9 843	9 402	11 352
Sport and recreation		1 031	831	845	1 071	1 071	1 071	1 168	1 273	1 387
Public safety		7 828	14 224	47 492	17 157	80 157	80 157	80 133	87 785	95 648
Housing		61 435	61 735	56 514	30 941	55 559	55 559	53 474	51 832	43 008
Health		0	1	-	-	-	-	-	-	-
<i>Economic and environmental services</i>		7 748	7 057	14 292	9 459	16 557	16 557	9 234	7 631	8 161
Planning and development		1 893	1 618	3 602	3 374	3 374	3 374	3 594	2 836	3 142
Road transport		5 855	5 439	6 782	6 085	13 183	13 183	5 640	4 795	5 019
Environmental protection		-	-	3 908	-	-	-	-	-	-
<i>Trading services</i>		272 361	296 939	305 943	327 452	323 452	323 452	378 619	416 687	460 067
Electricity		172 645	188 048	200 130	209 120	204 120	204 120	240 824	268 266	300 204
Water		50 357	60 212	65 496	72 858	72 858	72 858	78 428	88 341	94 633
Waste water management		28 846	27 601	17 516	19 315	20 315	20 315	29 138	26 755	28 697
Waste management		20 513	21 079	22 801	26 158	26 158	26 158	30 229	33 325	36 533
<i>Other</i>	4	-	-	-	-	-	-	-	-	-
Total Revenue - Standard	2	538 900	551 421	605 792	576 250	668 630	668 630	733 366	800 206	861 587
Expenditure - Standard										
<i>Governance and administration</i>		336 189	124 400	141 920	156 864	167 689	167 689	166 485	182 420	190 989
Executive and council		256 912	37 829	46 160	38 223	39 723	39 723	41 450	46 762	48 788
Budget and treasury office		30 939	30 784	30 880	42 947	44 133	44 133	47 449	51 562	54 260
Corporate services		48 338	55 787	64 880	75 694	83 833	83 833	77 586	84 096	87 942
<i>Community and public safety</i>		105 716	106 130	145 498	73 203	148 575	148 575	165 121	184 507	194 892
Community and social services		8 774	9 600	10 886	12 986	12 890	12 890	20 332	21 456	24 233
Sport and recreation		11 719	12 957	12 661	12 813	12 860	12 860	13 982	14 944	15 925
Public safety		21 080	26 233	62 752	24 877	88 720	88 720	95 526	101 949	109 079
Housing		60 762	53 526	55 194	18 467	30 046	30 046	30 846	41 445	40 639
Health		3 381	3 815	4 005	4 059	4 059	4 059	4 437	4 714	5 016
<i>Economic and environmental services</i>		30 270	30 933	39 308	39 683	35 243	35 243	55 409	52 635	55 803
Planning and development		6 461	7 401	9 481	9 539	8 600	8 600	16 622	16 710	17 879
Road transport		22 783	22 281	28 491	29 107	25 546	25 546	36 774	33 771	35 622
Environmental protection		1 026	1 251	1 336	1 037	1 097	1 097	2 014	2 153	2 302
<i>Trading services</i>		220 357	233 579	240 317	270 998	261 845	261 845	293 362	310 718	334 329
Electricity		136 857	153 292	157 049	178 516	167 976	167 976	187 147	197 943	214 665
Water		40 109	41 917	40 243	46 432	47 585	47 585	54 479	57 839	61 442
Waste water management		21 495	17 653	19 685	20 262	20 526	20 526	25 422	27 024	28 979
Waste management		21 896	20 716	23 340	25 788	25 758	25 758	26 314	27 912	29 244
<i>Other</i>	4	-	-	-	-	-	-	-	-	-
Total Expenditure - Standard	3	692 532	495 042	567 043	540 748	613 352	613 352	680 377	730 280	776 013
Surplus/(Deficit) for the year		(153 632)	56 379	38 749	35 503	55 278	55 278	52 989	69 926	85 574

GFS Classification

This table reflects the operating budget in the Government Finance Statistics GFS Functions and Sub-functions standard classifications. These are used by NT to assist with the compilation of National and International accounts for comparison purposes, regardless of the unique organisational structures used by the different institutions.

Revenue standard

As indicated on the table above, Budget and Treasury Office and Electricity are the main Generators of our Total Revenue followed by Public Safety (Traffic Fines). This is mainly as a result of new Accounting Treatment implemented from 2014/15 Adjustments budget for Traffic Fines. An 80% Debt impairment is provided for on Expenditure as currently Council, for various reasons, is only collecting 20% of the total value of fines issued.

Table A3 - Budgeted Financial Performance (revenue and expenditure by municipal vote)

WC048 Knysna - Table A3 Budgeted Financial Performance (revenue and expenditure by municipal vote)

Woolly Rhynd - Table A: Budgeted Financial Performance (Revenue and expenditure by municipal vote)											
Vote Description		Ref	2011/12	2012/13	2013/14	Current Year 2014/15			2015/16 Medium Term Revenue & Expenditure Framework		
R thousand			Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
Revenue by Vote		1									
Vote 1 - Executive & Council			37 772	10 138	8 845	6 414	6 414	6 414	8 491	9 596	10 584
Vote 2 - Corporate Services			2 668	3 631	3 172	3 345	3 804	3 804	3 644	3 986	4 411
Vote 3 - Financial Services			138 068	153 079	157 171	170 373	171 391	171 391	187 563	210 872	225 758
Vote 4 - Strategic Services			0	-	-	-	-	-	-	-	-
Vote 5 - Planning & Development			71 095	63 353	64 022	34 315	58 933	58 933	57 068	54 668	46 150
Vote 6 - Community Services			35 538	43 585	86 275	55 685	118 872	118 872	125 682	135 924	149 329
Vote 7 - Electrical Services			172 687	188 138	200 293	211 020	206 020	206 020	241 325	269 243	301 188
Vote 8 - Technical Services			81 072	89 497	86 013	95 097	103 195	103 195	109 593	115 917	124 167
Total Revenue by Vote		2	538 900	551 421	605 792	576 250	668 630	668 630	733 366	800 206	861 587
Expenditure by Vote to be appropriated		1									
Vote 1 - Executive & Council			256 912	37 829	46 160	38 223	39 723	39 723	41 450	46 762	48 788
Vote 2 - Corporate Services			18 642	24 093	28 163	28 557	29 071	29 071	30 004	33 231	34 202
Vote 3 - Financial Services			36 648	38 138	40 279	55 847	56 659	56 659	62 706	68 414	71 825
Vote 4 - Strategic Services			-	-	-	-	-	-	-	-	-
Vote 5 - Planning & Development			71 758	64 596	69 989	36 136	50 111	50 111	54 802	65 869	66 559
Vote 6 - Community Services			75 233	81 283	122 618	89 762	153 629	153 629	171 041	181 673	195 013
Vote 7 - Electrical Services			141 933	159 178	163 994	185 964	175 424	175 424	196 588	207 922	225 224
Vote 8 - Technical Services			91 406	89 925	95 840	106 259	108 736	108 736	123 786	126 409	134 403
Total Expenditure by Vote		2	692 532	495 042	567 043	540 748	613 352	613 352	680 377	730 280	776 013
Surplus/(Deficit) for the year		2	(153 632)	56 379	38 749	35 503	55 278	55 278	52 989	69 926	85 574

The above table provides Municipal Financial Performance on Municipal Vote as per MFMA and various points of note in this table are as follows:

Revenue

An overall increase of R157.1 million against the 2014/15 original budget. This is mainly in Community Services as a result of iGrap 1 (implementation for traffic fines) as mentioned above and R64.7 million against the Adjusted budget mainly on the following Votes:

- Vote 7 - Electricity Services: The main increase is as a result of the 12.2% increase on Electricity Service Charges for the projected revenue as well as an additional R6 million Grant for INEP
- Vote 3 - Financial Services: 9% increase in Property rates.

Expenditure

An overall increase of R139.1 million against the 2014/15 original budget and R66.5 million against the adjusted budget as follows:

- Vote 7 - Electrical Services: Primarily the Eskom bulk tariff increases
- Vote 6 - Community Services: additional allocation on the Library grant and required contract provision for traffic fines as above
- Vote 5 - Planning & Development: Provincial funding for housing
- Technical Services: to mainly cover for the additional R10 million allocated for road repairs.

It should be noted that although Council has approved a new macro structure in December 2014 and Electrical Services is no longer a Vote on its own but a Department under Technical Services, National Treasury demands it is shown separately to avoid confusion at a national level when it comes to local authority comparisons.

Table A4 - Budgeted Financial Performance (revenue and expenditure)

WC048 Knysna - Table A4 Budgeted Financial Performance (revenue and expenditure)

Description		Ref	2011/12	2012/13	2013/14	Current Year 2014/15				2015/16 Medium Term Revenue & Expenditure Framework		
R thousand		1	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
Revenue By Source												
Property rates	2		125 364	139 988	143 966	159 457	159 457	159 457	159 457	175 403	188 535	201 733
Property rates - penalties & collection charges			2 356	2 487	3 065	2 804	2 804	2 804	2 804	3 056	3 331	3 631
Service charges - electricity revenue	2		160 116	172 199	181 348	193 213	188 213	188 213	188 213	217 731	245 359	276 495
Service charges - water revenue	2		40 656	43 078	43 530	48 904	48 904	48 904	48 904	54 036	67 132	71 829
Service charges - sanitation revenue	2		9 632	10 232	10 898	11 469	11 469	11 469	11 469	12 618	13 499	14 445
Service charges - refuse revenue	2		13 179	13 459	14 188	15 352	15 352	15 352	15 352	16 886	18 575	20 433
Service charges - other			2 966	2 334	2 574	3 648	3 648	3 648	3 648	3 975	4 333	4 722
Rental of facilities and equipment			3 500	3 563	4 138	5 030	5 030	5 030	5 030	5 482	5 977	6 516
Interest earned - external investments			6 667	6 589	5 944	2 346	2 346	2 346	2 346	3 200	3 400	3 600
Interest earned - outstanding debtors			4 551	3 237	3 617	3 250	3 250	3 250	3 250	3 542	3 753	4 089
Fines			7 677	13 964	46 977	15 111	78 111	78 111	78 111	79 471	86 623	94 418
Licences and permits			1 843	1 674	1 643	1 998	1 998	1 998	1 998	2 179	2 331	2 541
Agency services			1 774	1 809	2 161	1 800	1 800	1 800	1 800	1 850	1 950	1 960
Transfers recognised - operational			89 231	83 819	89 804	68 844	91 990	91 990	91 990	93 803	104 483	108 783
Other revenue	2		37 889	8 455	7 750	3 291	3 341	3 341	3 341	3 619	4 089	5 115
Gains on disposal of assets			43	2 816	327	250	250	250	250	250	250	250
Total Revenue (excluding capital transfers and contributions)			507 444	509 703	561 930	536 766	617 962	617 962	617 962	677 101	753 620	820 560
Expenditure By Type												
Employee related costs	2		139 676	153 828	170 268	173 706	181 491	181 491	181 491	201 541	217 447	232 214
Remuneration of councillors			5 619	5 908	6 240	6 665	6 665	6 665	6 665	6 817	7 294	7 804
Debt impairment	3		25 142	20 480	47 163	25 196	88 196	88 196	88 196	94 369	100 975	108 043
Depreciation & asset impairment	2		148 738	21 403	22 234	28 199	28 199	28 199	28 199	29 146	32 544	34 749
Finance charges			16 686	14 876	14 488	18 493	14 499	14 499	14 499	16 568	15 586	16 520
Bulk purchases	2		107 621	122 262	123 733	137 236	129 236	129 236	129 236	146 160	154 954	168 900
Other materials	8		16 716	18 177	21 789	16 843	17 440	17 440	17 440	18 950	19 871	20 790
Contracted services			15 363	17 128	18 694	22 941	22 755	22 755	22 755	23 272	24 598	24 903
Transfers & grants			5 784	5 610	5 001	5 514	5 464	5 464	5 464	5 556	5 665	5 781
Other expenditure	4, 5		210 766	112 119	136 871	105 956	119 408	119 408	119 408	137 999	151 346	156 309
Loss on disposal of PPE			422	3 251	562	-	-	-	-	-	-	-
Total Expenditure			692 532	495 042	567 043	540 748	613 352	613 352	613 352	680 377	730 280	776 013
Surplus/(Deficit)												
			(185 088)	14 662	(5 113)	(3 981)	4 611	4 611	4 611	(3 276)	23 340	44 547
Transfers recognised - capital			30 679	41 023	39 272	39 484	50 667	50 667	50 667	56 265	46 586	41 027
Contributions recognised - capital	6		777	695	4 589	-	-	-	-	-	-	-
Contributed assets			-	-	-	-	-	-	-	-	-	-
Surplus/(Deficit) after capital transfers & contributions			(153 632)	56 379	38 749	35 503	55 278	55 278	55 278	52 989	69 926	85 574
Taxation			-	-	-	-	-	-	-	-	-	-
Surplus/(Deficit) after taxation			(153 632)	56 379	38 749	35 503	55 278	55 278	55 278	52 989	69 926	85 574
Attributable to minorities			-	-	-	-	-	-	-	-	-	-
Surplus/(Deficit) attributable to municipality			(153 632)	56 379	38 749	35 503	55 278	55 278	55 278	52 989	69 926	85 574
Share of surplus/ (deficit) of associate	7		-	-	-	-	-	-	-	-	-	-
Surplus/(Deficit) for the year			(153 632)	56 379	38 749	35 503	55 278	55 278	55 278	52 989	69 926	85 574

The issues to note on this table are:

- 16% increase in Service Charges Electricity, on the Adjusted figure as a result of the downward adjustment implemented in the 2014/15 Adjustment budget
- 16% increase on other Expenditure to cover Planning and Development as well as Technical Services Departmental Requests e.g: R10 million Road Repairs, R2 million Hornlee Toilets, R3.4 Economic Development Projects, R1.5 million Town Planning Projects and a R2.5 million Council Contribution towards Housing Projects.
- Employee Related costs increase by 11% mainly to cover the medical aid increases and shortfalls on Provisions and overtime costs.

Table A5 - Budgeted Capital Expenditure by vote, standard classification and funding

WC048 Knysna - Table A5 Budgeted Capital Expenditure by vote, standard classification and funding

Vote Description	Ref	2011/12	2012/13	2013/14	Current Year 2014/15				2015/16 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
R thousand	1										
Capital expenditure - Vote	2										
Multi-year expenditure, to be appropriated											
Vote 1 - Executive & Council		535	264	2 369	—	220	220	220	—	—	—
Vote 2 - Corporate Services		—	—	—	—	—	—	—	—	—	—
Vote 3 - Financial Services		1 063	26	1 390	238	238	238	238	1 000	—	—
Vote 4 - Strategic Services		—	—	—	—	—	—	—	—	—	—
Vote 5 - Planning & Development		10 856	13 679	12 515	18 250	26 307	26 307	26 307	29 372	22 029	16 522
Vote 6 - Community Services		—	—	—	830	260	260	260	3 453	1 750	400
Vote 7 - Electrical Services		6 011	2 064	901	4 754	4 754	4 754	4 754	15 863	7 209	3 432
Vote 8 - Technical Services		16 066	26 069	11 181	13 901	18 354	18 354	18 354	22 484	18 170	20 195
Capital multi-year expenditure sub-total	7	34 531	42 102	28 356	37 973	50 133	50 133	50 133	72 172	49 158	40 549
Single-year expenditure, to be appropriated	2										
Vote 1 - Executive & Council		532	1 717	3 312	2 090	2 312	2 312	2 312	1 540	20	20
Vote 2 - Corporate Services		240	133	229	75	75	75	75	10	10	10
Vote 3 - Financial Services		1 739	1 132	1 664	590	1 255	1 255	1 255	975	1 504	745
Vote 4 - Strategic Services		—	—	—	—	—	—	—	—	—	—
Vote 5 - Planning & Development		3 788	2 651	4 649	25	510	510	510	260	20	20
Vote 6 - Community Services		2 599	5 400	14 032	9 362	10 238	10 238	10 238	7 112	5 889	7 459
Vote 7 - Electrical Services		7 099	11 342	18 168	8 637	8 637	8 637	8 637	3 819	1 427	1 147
Vote 8 - Technical Services		9 740	10 603	6 853	11 422	15 975	15 975	15 975	6 585	12 212	9 042
Capital single-year expenditure sub-total		25 737	32 978	48 907	32 201	39 002	39 002	39 002	20 301	21 082	18 443
Total Capital Expenditure - Vote		60 268	75 079	77 263	70 174	89 134	89 134	89 134	92 473	70 240	58 992
Capital Expenditure - Standard											
Governance and administration		12 769	5 272	10 061	3 553	4 852	4 852	4 852	3 935	1 744	995
Executive and council		1 067	1 981	5 681	2 090	2 532	2 532	2 532	1 540	20	20
Budget and treasury office		1 256	82	1 780	438	463	463	463	1 215	120	—
Corporate services		10 446	3 209	2 600	1 025	1 858	1 858	1 858	1 180	1 604	975
Community and public safety		8 005	18 482	26 078	24 119	33 109	33 109	33 109	35 987	27 688	23 851
Community and social services		253	732	10 067	4 629	4 742	4 742	4 742	4 595	2 509	2 509
Sport and recreation		26	1 541	855	1 140	1 710	1 710	1 710	1 800	2 220	1 600
Public safety		934	—	2 342	350	850	850	850	—	930	3 220
Housing		6 792	16 209	12 814	18 000	25 807	25 807	25 807	29 592	22 029	16 522
Health		—	—	—	—	—	—	—	—	—	—
Economic and environmental services		5 370	2 748	7 729	3 474	6 551	6 551	6 551	3 216	2 050	1 870
Planning and development		—	86	—	250	985	985	985	—	—	—
Road transport		5 370	2 662	3 422	3 224	5 566	5 566	5 566	3 216	2 050	1 870
Environmental protection		—	—	4 308	—	—	—	—	—	—	—
Trading services		34 123	48 577	33 395	39 028	44 622	44 622	44 622	49 335	38 758	32 276
Electricity		13 054	13 405	19 025	13 341	13 341	13 341	13 341	19 682	8 636	4 579
Water		5 285	12 377	12 136	18 794	19 583	19 583	19 583	17 380	22 050	22 075
Waste water management		14 820	21 105	2 234	3 720	9 695	9 695	9 695	8 893	6 182	5 182
Waste management		963	1 689	—	3 173	2 003	2 003	2 003	3 380	1 890	440
Other		—	—	—	—	—	—	—	—	—	—
Total Capital Expenditure - Standard	3	60 268	75 079	77 263	70 174	89 134	89 134	89 134	92 473	70 240	58 992
Funded by:											
National Government		27 112	23 027	25 865	21 317	21 317	21 317	21 317	25 532	24 557	24 505
Provincial Government		3 328	14 472	14 185	18 167	29 300	29 300	29 300	30 733	22 029	16 522
District Municipality		—	—	—	—	—	—	—	—	—	—
Other transfers and grants		239	864	81	—	50	50	50	—	—	—
Transfers recognised - capital	4	30 679	38 363	40 132	39 484	50 667	50 667	50 667	56 265	46 586	41 027
Public contributions & donations	5	777	446	4 519	—	—	—	—	—	—	—
Borrowing	6	13 094	23 105	14 318	16 695	17 105	17 105	17 105	14 732	11 570	9 660
Internally generated funds		15 718	13 165	18 294	13 995	21 363	21 363	21 363	21 476	12 084	8 305
Total Capital Funding	7	60 268	75 079	77 263	70 174	89 134	89 134	89 134	92 473	70 240	58 992

76% of the total 2015/16 Capital Allocation is for multi-year projects mainly in Planning and Development (Knysna Vision 2002); Technical and Electrical Services.

61% of total allocation relates to Provincial and National Grants.

Borrowings of R14.7 million are forecasted in 2015/16 mainly to cover a 20% contribution to MIG projects and roll-over requests for compactor trucks in Roads and Solid Waste and other various projects across Council. Refer to table SA36.

Table A6 - Budgeted Financial Position

The following three tables namely A6, A7 and A8 below are probably the most important in this whole document. As a result all comments have been reserved until after table A8 and refer to all three of the tables.

WC048 Knysna - Table A6 Budgeted Financial Position

Description	Ref	2011/12	2012/13	2013/14	Current Year 2014/15				2015/16 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
R thousand											
ASSETS											
Current assets											
Cash		25 161	22 885	596	12 551	1 990	5 131	5 131	5 998	46 114	108 097
Call investment deposits	1	30 342	23 276	17 983	15 000	11 983	10 000	10 000	10 000	10 000	10 000
Consumer debtors	1	54 671	67 199	64 542	78 373	64 183	61 253	61 253	58 930	57 609	56 938
Other debtors		10 929	9 514	17 240	11 077	18 102	18 102	18 102	18 102	18 102	18 102
Current portion of long-term receivables		202	115	125	125	125	125	125	125	125	125
Inventory	2	7 965	8 540	7 419	7 661	7 468	7 468	7 468	7 841	8 233	8 645
Total current assets		129 270	131 528	107 905	124 787	103 850	102 079	102 079	100 996	140 182	201 907
Non current assets											
Long-term receivables		3 065	2 295	2 218	2 734	230	2 093	2 093	1 968	1 843	1 718
Investments		17 385	19 025	21 435	21 982	22 721	22 721	22 721	23 857	25 050	26 302
Investment property		110 355	110 321	110 321	130 645	110 321	110 321	110 321	110 321	110 321	110 321
Investment in Associate		—	—	—	—	—	—	—	—	—	—
Property, plant and equipment	3	695 753	744 803	802 912	839 639	863 897	863 897	863 897	927 275	965 021	989 314
Agricultural		—	—	—	—	—	—	—	—	—	—
Biological		—	—	—	—	—	—	—	—	—	—
Intangible		669	992	800	900	750	750	750	700	650	600
Other non-current assets		22 741	22 741	19 057	22 738	20 920	19 057	19 057	19 057	19 057	19 057
Total non current assets		849 969	900 178	956 742	1 018 637	1 018 839	1 018 839	1 018 839	1 083 177	1 121 941	1 147 312
TOTAL ASSETS		979 238	1 031 705	1 064 648	1 143 424	1 122 689	1 120 918	1 120 918	1 184 173	1 262 123	1 349 219
LIABILITIES											
Current liabilities											
Bank overdraft	1	—	—	1 276	—	—	—	—	—	—	—
Borrowing		17 259	18 130	17 786	21 147	19 209	19 209	19 209	17 500	16 000	14 500
Consumer deposits		9 289	9 658	10 012	11 265	10 813	10 813	10 813	11 246	11 696	12 164
Trade and other payables	4	49 338	55 980	61 786	61 481	56 684	50 826	50 826	57 205	61 348	64 769
Provisions		18 806	21 650	21 320	23 382	21 320	21 320	21 320	22 386	23 506	24 681
Total current liabilities		94 692	105 418	112 181	117 274	108 026	102 168	102 168	108 337	112 549	116 113
Non current liabilities											
Borrowing		149 548	129 597	102 042	115 779	99 528	103 613	103 613	100 354	94 071	81 154
Provisions		87 176	93 670	108 859	112 260	118 292	118 292	118 292	125 650	135 744	146 619
Total non current liabilities		236 725	223 267	210 901	228 039	217 820	221 906	221 906	226 004	229 815	227 773
TOTAL LIABILITIES		331 417	328 685	323 082	345 313	325 846	324 074	324 074	334 340	342 364	343 886
NET ASSETS	5	647 822	703 020	741 566	798 110	796 844	796 844	796 844	849 833	919 759	1 005 333
COMMUNITY WEALTH/EQUITY											
Accumulated Surplus/(Deficit)		585 339	641 670	682 835	712 756	731 905	731 905	731 905	781 682	845 886	925 727
Reserves	4	62 483	61 351	58 731	85 355	64 939	64 939	64 939	68 151	73 873	79 606
Minorities' interests		—	—	—	—	—	—	—	—	—	—
TOTAL COMMUNITY WEALTH/EQUITY	5	647 822	703 020	741 566	798 110	796 844	796 844	796 844	849 833	919 759	1 005 333

Table A7 - Budgeted Cash Flows

WC048 Knysna - Table A7 Budgeted Cash Flows

Description	Ref	2011/12	2012/13	2013/14	Current Year 2014/15				2015/16 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
R thousand											
CASH FLOW FROM OPERATING ACTIVITIES											
Receipts											
Property rates, penalties & collection charges		110 453	135 528	132 672	149 943	134 590	154 148	154 148	169 536	182 273	195 096
Service charges		195 921	229 537	227 876	251 893	221 954	254 207	254 207	289 984	331 453	368 528
Other revenue		45 561	28 028	56 549	25 162	74 884	26 166	26 166	24 917	28 542	33 047
Government - operating	1	88 663	79 236	99 396	68 844	86 278	86 278	86 278	93 803	104 483	108 783
Government - capital	1	29 353	40 327	39 209	39 484	48 168	48 168	48 168	54 904	46 586	41 027
Interest		6 667	6 589	5 944	5 596	5 596	5 434	5 434	6 565	6 965	7 485
Dividends		-	-	-	-	-	-	-	-	-	-
Payments											
Suppliers and employees		(391 104)	(424 549)	(470 569)	(449 059)	(464 500)	(470 358)	(470 358)	(520 310)	(560 545)	(595 861)
Finance charges		(16 686)	(14 878)	(13 442)	(18 500)	(14 500)	(14 499)	(14 499)	(16 568)	(15 586)	(16 520)
Transfers and Grants	1	-	-	-	(5 514)	(5 464)	(5 464)	(5 464)	(5 556)	(5 665)	(5 781)
NET CASH FROM/(USED) OPERATING ACTIVITIES		68 828	79 820	77 636	67 849	87 006	84 079	84 079	97 275	118 507	135 803
CASH FLOWS FROM INVESTING ACTIVITIES											
Receipts											
Proceeds on disposal of PPE		43	2 881	329	250	250	250	250	250	250	250
Decrease (Increase) in non-current debtors		-	-	-	-	-	-	-	-	-	-
Decrease (Increase) other non-current receivables		-	-	-	115	125	125	125	125	125	125
Decrease (Increase) in non-current investments		(2 437)	128	(2 410)	(1 815)	(1 286)	(1 286)	(1 286)	(1 136)	(1 193)	(1 252)
Payments											
Capital assets		(60 096)	(74 430)	(77 218)	(70 174)	(89 134)	(89 134)	(89 134)	(92 473)	(70 240)	(58 992)
NET CASH FROM/(USED) INVESTING ACTIVITIES		(62 490)	(71 422)	(79 299)	(71 624)	(90 045)	(90 045)	(90 045)	(93 234)	(71 058)	(59 869)
CASH FLOWS FROM FINANCING ACTIVITIES											
Receipts											
Short term loans		-	-	-	-	-	-	-	-	-	-
Borrowing long term/refinancing		8 254	-	-	16 057	17 105	17 105	17 105	14 732	11 570	9 660
Increase (decrease) in consumer deposits		185	369	354	834	801	801	801	433	450	468
Payments											
Repayment of borrowing		(16 583)	(18 110)	(27 549)	(16 132)	(18 196)	(14 110)	(14 110)	(19 700)	(19 353)	(24 077)
NET CASH FROM/(USED) FINANCING ACTIVITIES		(8 144)	(17 740)	(27 194)	759	(290)	3 796	3 796	(4 536)	(7 333)	(13 949)
NET INCREASE/(DECREASE) IN CASH HELD		(1 806)	(9 342)	(28 858)	(3 015)	(3 330)	(2 171)	(2 171)	(494)	40 116	61 984
Cash/cash equivalents at the year begin:	2	57 309	55 503	46 161	30 566	17 303	17 303	17 303	15 132	14 638	54 753
Cash/cash equivalents at the year end:	2	55 503	46 161	17 303	27 551	13 973	15 132	15 132	14 638	54 753	116 737

Table A8 - Cash backed reserves/accumulated surplus reconciliation

WC048 Knysna - Table A8 Cash backed reserves/accumulated surplus reconciliation

Description	Ref	2011/12	2012/13	2013/14	Current Year 2014/15				2015/16 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
R thousand											
Cash and investments available											
Cash/cash equivalents at the year end	1	55 503	46 161	17 303	27 551	13 973	15 132	15 132	14 638	54 753	116 737
Other current investments > 90 days		(0)	0	0	(0)	0	(0)	(0)	1 361	1 361	1 361
Non current assets - Investments	1	17 385	19 025	21 435	21 982	22 721	22 721	22 721	23 857	25 050	26 302
Cash and investments available:		72 887	65 186	38 738	49 532	36 694	37 852	37 852	39 855	81 164	144 400
Application of cash and investments											
Unspent conditional transfers		2 137	1 262	9 966	-	1 754	1 754	1 754	1 754	1 754	1 754
Unspent borrowing		-	-	-	-	-	-	-	-	-	-
Statutory requirements	2	-	-	-	-	-	-	-	-	-	-
Other working capital requirements	3	(11 525)	(19 853)	(23 387)	(23 110)	(13 088)	(18 547)	(18 547)	(10 550)	(5 558)	(1 680)
Other provisions		-	-	-	-	-	-	-	-	-	-
Long term investments committed	4	17 385	19 025	21 435	21 982	22 721	22 721	22 721	23 857	25 050	26 302
Reserves to be backed by cash/investments	5	14 676	14 725	12 308	37 687	18 516	18 516	18 516	21 728	27 450	33 184
Total Application of cash and investments:		22 673	15 159	20 321	36 558	29 903	24 444	24 444	36 789	48 696	59 560
Surplus(shortfall)		50 215	50 027	18 417	12 974	6 791	13 409	13 409	3 066	32 467	84 840

Other working capital requirements

Debtors	58 726	74 571	75 208	84 591	68 018	67 620	67 620	66 001	65 152	64 695
Creditors due	47 201	54 718	51 821	61 481	54 930	49 073	49 073	55 451	59 594	63 015
Total	11 525	19 853	23 387	23 110	13 088	18 547	18 547	10 550	5 558	1 680

Debtors collection assumptions

Balance outstanding - debtors	68 666	79 008	84 000	92 184	82 514	81 447	81 447	79 000	77 553	76 758
Estimate of debtors collection rate	85.5%	94.4%	89.5%	91.8%	82.4%	83.0%	83.0%	83.5%	84.0%	84.3%

Long term investments committed

DBSA Security	17 385	19 025	21 435	21 982	22 721	22 721	22 721	23 857	25 050	26 302
	17 385	19 025	21 435	21 982	22 721	22 721	22 721	23 857	25 050	26 302

Reserves to be backed by cash/investments

Housing Development Fund	-	-	-	-	-	-	-	-	-	-
Capital replacement	4 692	3 639	-	15 039	-	-	-	-	-	-
Self-insurance	-	-	-	-	-	-	-	-	-	-
Employee Benefits Reserve	6 153	6 669	7 544	16 669	12 544	12 544	12 544	15 044	20 044	25 044
Non-current provisions reserve	3 419	3 593	3 528	4 254	4 236	4 236	4 236	4 448	4 670	4 904
Valuation Roll Reserve	412	824	1 236	1 724	1 736	1 736	1 736	2 236	2 736	3 236

	14 676	14 725	12 308	37 687	18 516	18 516	18 516	21 728	27 450	33 184
--	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------

The MTREF for last year pointed out the concerns that far more attention needed to be paid to minimising debt at an early stage, that is, before it reaches 90 days. After that point debt recovery, especially on services other than rates or electricity, becomes very problematic.

Council will continue to follow the iron fist in a velvet glove approach to credit control. Sadly however, we have had to take the harder approach of handing over more debtors to our debt collectors for direct action. This is most especially in regard to assessment rates—the tax—and for charges on vacant land.

It should be noted that by the end of the MTREF Knysna Municipality outstanding borrowings should fall to R123 million. This is well below the peak of nearly R159 million reached in 2009/10, the year of the major World Cup expenditures. Once again this demonstrates the implementation of our financial strategy in recent years and places Knysna in a very good position to take advantage of the upward economic cycle when it occurs.

Table SA8 entitled Performance Indicators confirms the downward trends in both our Gearing and our Debt to Equity ratios.

Table A9 - Asset Management

WC048 Knysna - Table A9 Asset Management

Description	Ref	2011/12	2012/13	2013/14	Current Year 2014/15			2015/16 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
R thousand										
CAPITAL EXPENDITURE										
Total New Assets	1	25 129	37 182	40 289	46 733	66 880	66 880	63 118	52 994	43 656
Infrastructure - Road transport		5 002	610	3 322	2 754	10 456	10 456	3 607	2 450	3 450
Infrastructure - Electricity		5 387	6 378	9 477	6 521	6 521	6 521	14 202	4 366	3 489
Infrastructure - Water		1 034	10 929	9 680	9 863	12 424	12 424	7 667	14 921	16 021
Infrastructure - Sanitation			722	1 219	1 470	2 470	2 470		2 164	1 164
Infrastructure - Other		7 968	927	56	1 230	660	660	2 030	1 000	-
Infrastructure		19 391	19 566	23 754	21 838	32 531	32 531	27 506	24 901	24 124
Community		3 345	16 754	13 815	20 450	28 611	28 611	31 172	22 029	16 522
Heritage assets		-	-	-	-	-	-	-	-	-
Investment properties		-	-	-	-	-	-	-	-	-
Other assets	6	2 394	862	2 720	4 445	5 738	5 738	4 440	6 064	3 010
Agricultural Assets		-	-	-	-	-	-	-	-	-
Biological assets		-	-	-	-	-	-	-	-	-
Intangibles		-	-	-	-	-	-	-	-	-
Total Renewal of Existing Assets										
Infrastructure - Road transport	2	35 138	37 898	36 974	23 441	22 255	22 255	29 355	17 246	15 336
Infrastructure - Electricity		-	1 125	4 515	-	-	-	-	-	-
Infrastructure - Water		9 568	7 414	9 110	5 100	5 000	5 000	3 600	2 200	800
Infrastructure - Sanitation		4 235	893	2 456	8 141	7 369	7 369	9 713	7 129	6 054
Infrastructure - Other		13 030	20 205	528	1 400	400	400	5 762	1 018	1 018
Infrastructure		52	-	-	600	-	-	900	-	-
Infrastructure		26 885	29 636	16 609	15 241	12 769	12 769	19 975	10 347	7 872
Community		323	1 534	10 720	4 417	5 037	5 037	5 525	3 259	2 909
Heritage assets		-	-	-	-	-	-	-	-	-
Investment properties		-	-	-	-	-	-	-	-	-
Other assets	6	7 931	6 698	9 645	3 783	4 448	4 448	3 855	3 640	4 555
Agricultural Assets		-	-	-	-	-	-	-	-	-
Biological assets		-	-	-	-	-	-	-	-	-
Intangibles		-	30	-	-	-	-	-	-	-
Total Capital Expenditure										
Infrastructure - Road transport	4	5 002	1 735	7 837	2 754	10 456	10 456	3 607	2 450	3 450
Infrastructure - Electricity		14 955	13 792	18 588	11 621	11 521	11 521	17 802	6 566	4 289
Infrastructure - Water		5 269	11 821	12 136	18 004	19 793	19 793	17 380	22 050	22 075
Infrastructure - Sanitation		13 030	20 927	1 746	2 870	2 870	2 870	5 762	3 182	2 182
Infrastructure - Other		8 020	927	56	1 830	660	660	2 930	1 000	-
Infrastructure		46 275	49 202	40 363	37 079	45 300	45 300	47 481	35 248	31 996
Community		3 668	18 288	24 536	24 867	33 648	33 648	36 697	25 288	19 431
Heritage assets		-	-	-	-	-	-	-	-	-
Investment properties		-	-	-	-	-	-	-	-	-
Other assets		10 325	7 560	12 365	8 228	10 186	10 186	8 295	9 704	7 565
Agricultural Assets		-	-	-	-	-	-	-	-	-
Biological assets		-	-	-	-	-	-	-	-	-
Intangibles		-	-	-	-	-	-	-	-	-
TOTAL CAPITAL EXPENDITURE - Asset class	2	60 268	75 079	77 263	70 174	89 134	89 134	92 473	70 240	58 992
ASSET REGISTER SUMMARY - PPE (WDV)										
Infrastructure - Road transport	5	84 926	83 748	87 263	95 051	89 144	89 144	86 104	81 132	76 655
Infrastructure - Electricity		117 788	128 432	155 876	148 059	160 337	160 337	173 257	174 369	172 835
Infrastructure - Water		170 045	191 647	198 253	180 501	176 062	207 634	218 479	233 230	247 512
Infrastructure - Sanitation		62 998	81 446	78 487	80 732	65 516	85 843	87 507	86 113	83 409
Infrastructure - Other		1 273	1 200	1 112	2 143	(55)	2 245	5 032	5 873	5 703
Infrastructure		437 029	486 473	520 990	506 486	491 005	545 203	570 379	580 717	586 113
Community		29 680	28 763	36 953	88 546	71 241	71 241	107 480	132 257	151 142
Heritage assets		22 741	22 741	19 057	22 734	19 053	19 053	19 053	19 053	19 053
Investment properties		110 355	110 321	110 321	130 645	110 321	110 321	110 321	110 321	110 321
Other assets		229 044	229 567	244 969	221 872	247 457	247 457	249 419	252 050	252 063
Agricultural Assets		-	-	-	-	-	-	-	-	-
Biological assets		-	-	-	-	-	-	-	-	-
Intangibles		669	992	800	900	750	750	700	650	600
TOTAL ASSET REGISTER SUMMARY - PPE (WDV)	5	829 519	878 857	933 090	971 184	939 827	994 025	1 057 352	1 095 048	1 119 291
EXPENDITURE OTHER ITEMS										
Depreciation & asset impairment		148 738	21 403	22 234	28 199	28 199	28 199	29 146	32 544	34 749
Repairs and Maintenance by Asset Class	3	22 025	22 515	30 689	34 796	35 602	35 602	46 037	44 117	46 655
Infrastructure - Road transport		4 798	4 202	9 196	8 554	6 818	6 818	15 936	11 682	12 480
Infrastructure - Electricity		4 651	6 156	6 189	8 780	8 410	8 410	8 469	9 486	10 146
Infrastructure - Water		3 339	2 360	3 301	4 001	4 335	4 335	5 185	5 548	5 937
Infrastructure - Sanitation		2 014	1 666	2 187	1 836	2 616	2 616	3 162	3 384	3 621
Infrastructure - Other		0	-	-	460	460	460	400	400	400
Infrastructure		14 802	14 384	20 873	23 632	22 639	22 639	33 153	30 500	32 583
Community		783	737	936	1 241	1 118	1 118	1 124	1 124	1 124
Heritage assets		-	-	-	-	-	-	-	-	-
Investment properties		-	-	-	-	-	-	-	-	-
Other assets	6, 7	6 440	7 394	8 880	9 923	11 845	11 845	11 761	12 493	12 948
TOTAL EXPENDITURE OTHER ITEMS		170 763	43 917	52 923	62 995	63 801	63 801	75 182	76 661	81 404
Renewal of Existing Assets as % of total capex		58.3%	50.5%	47.9%	33.4%	25.0%	25.0%	31.7%	24.6%	26.0%
Renewal of Existing Assets as % of deprecn*		23.6%	177.1%	166.3%	83.1%	78.9%	78.9%	100.7%	53.0%	44.1%
R&M as a % of PPE		3.2%	3.0%	3.8%	4.1%	4.1%	4.1%	5.0%	4.6%	4.7%
Renewal and R&M as a % of PPE		7.0%	7.0%	7.0%	6.0%	6.0%	6.0%	7.0%	6.0%	6.0%

Table A10 - Basic service delivery measurement

WC048 Knysna - Table A10 Basic service delivery measurement

Description	Ref	2011/12	2012/13	2013/14	Current Year 2014/15			2015/16 Medium Term Revenue & Expenditure Framework		
		Outcome	Outcome	Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
Household service targets	1									
Water:										
Piped water inside dwelling		14 731	14 977	15 237	19 230	19 230	19 230	20 166	21 104	21 104
Piped water inside yard (but not in dwelling)		2 574	2 636	2 701	1 949	1 949	1 949	1 909	1 890	1 890
Using public tap (at least min.service level)	2	3 362	3 464	3 571	3 571	3 571	3 571	4 490	4 400	4 400
Other water supply (at least min.service level)	4	164	164	164	149	149	149	146	143	143
Minimum Service Level and Above sub-total		20 831	21 241	21 673	24 899	24 899	24 899	26 711	27 537	27 537
Using public tap (< min.service level)	3	816	841	866	-	-	-	-	-	-
Other water supply (< min.service level)	4	354	361	371	-	-	-	-	-	-
No water supply		-	-	-	-	-	-	-	-	-
Below Minimum Service Level sub-total		1 170	1 202	1 237	-	-	-	-	-	-
Total number of households	5	22 001	22 443	22 910	24 899	24 899	24 899	26 711	27 537	27 537
Sanitation/sewerage:										
Flush toilet (connected to sewerage)		14 687	15 977	17 236	18 712	18 712	18 712	19 406	20 101	20 101
Flush toilet (with septic tank)		2 466	2 466	2 074	2 615	2 615	2 615	2 746	2 883	2 883
Chemical toilet		-	-	-	-	-	-	-	-	-
Pit toilet (ventilated)		-	-	-	-	-	-	-	-	-
Other toilet provisions (> min.service level)		-	-	-	-	-	-	-	-	-
Minimum Service Level and Above sub-total		17 153	18 443	19 310	21 328	21 328	21 328	22 152	22 984	22 984
Bucket toilet		-	-	-	-	-	-	-	-	-
Other toilet provisions (< min.service level)		670	2 103	510	1 220	1 220	1 220	1 098	988	988
No toilet provisions		4 303	2 200	2 926	3 362	3 362	3 362	3 463	3 567	3 567
Below Minimum Service Level sub-total		4 973	4 303	3 436	4 582	4 582	4 582	4 561	4 555	4 555
Total number of households	5	22 126	22 746	22 746	25 910	25 910	25 910	26 713	27 539	27 539
Energy:										
Electricity (at least min.service level)		4 916	5 343	5 343	4 927	4 927	4 927	4 829	4 732	4 732
Electricity - prepaid (min.service level)		10 775	10 700	20 141	13 299	13 299	13 299	13 951	14 617	14 617
Minimum Service Level and Above sub-total		15 691	16 043	25 484	18 226	18 226	18 226	18 780	19 349	19 349
Electricity (< min.service level)		-	-	-	-	-	-	-	-	-
Electricity - prepaid (< min.service level)		7 095	7 382	7 382	8 323	8 323	8 323	8 573	8 830	8 830
Other energy sources		-	-	-	-	-	-	-	-	-
Below Minimum Service Level sub-total		7 095	7 382	7 382	8 323	8 323	8 323	8 573	8 830	8 830
Total number of households	5	22 785	23 425	32 866	26 550	26 550	26 550	27 353	28 179	28 179
Refuse:										
Removed at least once a week		19 945	19 948	19 949	26 550	26 550	26 550	27 353	28 179	28 179
Minimum Service Level and Above sub-total		19 945	19 948	19 949	26 550	26 550	26 550	27 353	28 179	28 179
Removed less frequently than once a week		155	157	159	-	-	-	-	-	-
Using communal refuse dump		300	300	300	-	-	-	-	-	-
Using own refuse dump		586	586	586	-	-	-	-	-	-
Other rubbish disposal		180	180	180	-	-	-	-	-	-
No rubbish disposal		290	290	290	-	-	-	-	-	-
Below Minimum Service Level sub-total		1 511	1 513	1 515	-	-	-	-	-	-
Total number of households	5	21 456	21 461	21 464	26 550	26 550	26 550	27 353	28 179	28 179
Households receiving Free Basic Service	7									
Water (6 kilolitres per household per month)		15 709	17 742	17 742	16 795	16 795	16 795	17 299	17 818	17 818
Sanitation (free minimum level service)		11 727	13 193	13 193	11 881	11 881	11 881	12 237	12 605	12 605
Electricity/other energy (50kwh per household per month)		7 095	7 382	7 382	8 323	8 323	8 323	8 573	8 830	8 830
Refuse (removed at least once a week)		9 372	9 662	9 662	10 260	10 260	10 260	10 568	10 568	10 568
Cost of Free Basic Services provided (R'000)	8									
Water (6 kilolitres per household per month)		17 162	19 592	19 592	-	-	-	-	-	-
Sanitation (free sanitation service)		8 451	8 092	8 092	-	-	-	-	-	-
Electricity/other energy (50kwh per household per month)		2 639	2 879	2 879	3 426	3 426	3 426	3 529	3 634	3 634
Refuse (removed once a week)		7 670	7 900	7 900	8 381	8 381	8 381	8 632	8 891	8 891
Total cost of FBS provided (minimum social package)		35 922	38 464	38 464	11 807	11 807	11 807	12 161	12 526	12 526
Highest level of free service provided										
Property rates (R value threshold)		30 000	65 000	100 000	100 000	100 000	100 000	100 000	100 000	100 000
Water (kilolitres per household per month)		6	6	6	6	6	6	6	6	6
Sanitation (kilolitres per household per month)		-	-	-	-	-	-	-	-	-
Sanitation (Rand per household per month)		47	50	-	-	-	-	-	-	-
Electricity (kwh per household per month)		50	50	50	50	50	50	50	50	50
Refuse (average litres per week)		170	170	170	170	170	170	170	170	170
Revenue cost of free services provided (R'000)	9									
Property rates (R15 000 threshold rebate)		-	-	-	-	-	-	-	-	-
Property rates (other exemptions, reductions and rebates)		21 272	27 999	26 758	26 233	26 233	26 233	27 239	29 893	29 893
Water		5 583	7 032	7 670	7 520	7 520	7 520	8 084	8 569	8 569
Sanitation		716	1 105	1 029	1 009	1 009	1 009	1 089	1 155	1 155
Electricity/other energy		2 639	2 879	3 494	3 426	3 426	3 426	3 529	3 634	3 634
Refuse		6 345	6 715	8 173	8 013	8 013	8 013	8 750	9 362	9 362
Municipal Housing - rental rebates		-	-	-	-	-	-	-	-	-
Housing - top structure subsidies	6	3 018	3 983	3 410	3 343	3 343	3 343	3 577	3 638	3 638
Other		-	-	-	-	-	-	-	-	-
Total revenue cost of free services provided (total social package)		39 574	49 713	50 534	49 543	49 543	49 543	52 267	56 251	56 251

PART 2 - SUPPORTING DOCUMENTATION

Section 5 - Overview of Annual Budget Process

Annual planning processes

The CFO has stated in a number of budgets that in an economic downturn coupled with excessive increases for electricity then the financial elements of the IDP get turned on their head and makes the whole IDP and budget process a scarce resource allocation exercise as opposed to a proper planning one.

In recent years the operating budget of Knysna has been driven totally on the premise of cash flow and consumer affordability. Throughout South Africa there are municipalities in financial meltdown because of bad budgeting and by extension bad financial management. A bad budget automatically leads to increased non-payment and pressured cash flows.

A municipality is not a private sector company that can cut salaries or staffing levels. Nor can it cut its bulk Eskom payment or interest and redemption payments. The balance of the budget is for repairs and maintenance, stores and materials and other expenditures simply to make the municipality function and is zero-based. In this budget repairs and maintenance has again deliberately been prioritised to ensure a higher level of service delivery at the expense of “soft” services.

Budget Process 2015/16

The budget process followed the requirements of the MFMA. A schedule of key deadlines was prepared for tabling in Council by the Mayor prior to the end of August 2014 as required.

The draft budget was tabled in Council on 26 March 2015. A period of consultation then followed as per the dictates of Sections 22 and 23 of the MFMA.

At the culmination of the process the Mayor must consider any representations and decide if any amendments should be made to the budget.

The Municipality's budget is prepared on a three year basis. This takes into account the National and Provincial three year allocations to the municipality and to ensure optional financial planning and provide for seamless service delivery. Additionally the National Treasury Budget Circulars request local government to highlight their projected increases over the next three years to give some certainty to customers.

Operating expenditure in 2015/16 is budgeted at R679.9 million, a 26% increase on the original budget for 2014/15, and an 11% increase on the adjusted budget for 2014/15.

The municipality sets out measurable performance objectives to link the financial inputs of the budget to service delivery on the ground. This is done in the form of quarterly service targets and monthly financial targets that are contained in the Service Delivery and Budget Implementation Plan (SDBIP). The plan must be agreed by the Mayor within 28 days of approval of the final budget and forms the basis for the Municipality's in year monitoring.

Section 6 - Overview of Alignment of the Annual Budget with the Integrated Development Plan

Introduction

Municipalities are required to develop five year Integrated Development Plans which must be reviewed annually. It is also required that such plans must find expression in the Budget. The IDP and the budget are inter-related documents. The IDP is the budget in words, just as the budget is the IDP in figures. In the past two years comprehensive efforts have been made towards ensuring that the two documents are closely link.

Knysna's vision: Where People and Nature Prosper

The Knysna Municipality has a vision which drives the Integrated Development Plan namely that of "Where people and nature prosper".

Our greatest challenge has been to build our own absorptive capacity in order to ensure that such growth translates into economic development of the town. Critical to this is ensuring that the town has adequate infrastructure. The infrastructure investment requirements far outstrip our available income. The total requests from Directorates into the capital budget was R432 million. The challenge is always to prioritise what we can afford first and eliminate any "nice to have's".

All of these challenges are compounding on an already existing problem of disparity between the affluent communities of Knysna and our historically disadvantaged ones.

Key challenges facing Knysna

Knysna Municipality is faced with a complex set of development challenges; their outlook is consistent with the broader challenges facing local government albeit with some peculiarities:

i. Sustainable Infrastructure Investment

The growth of our less advantaged areas in recent years has put a lot of pressure on infrastructure. That growth—which cannot simply be stopped—will continue at a rate which the Municipality cannot match financially from its own resources.

ii. Focused development of the previously disadvantaged

The poorest communities in our areas are subjected to the worst living conditions and the Municipality has committed itself towards poverty

alleviation. Programmes with clear funding intentions are being designed for that purpose.

iii. Integrated Human Settlement

The provision of housing settlements with a strong emphasis on sustainability is an important issue for Knysna Municipality. Within the context of a composite set of development needs of the previously disadvantaged, the Municipality will address the need for housing, as far as it financially can. Although some of the obstacles regarding successful housing provision are not necessarily within the control of the municipality i.e. access to land, the challenge still remains for Council to devise creative strategies to deal with this matter. In line with that the Council has engaged with the other spheres of government i.e. Department of Water Affairs & Department of Public Works. The Integrated Human Settlement strategy in conjunction with the ISDF will pave the way for future housing and infrastructure provision in the Knysna area. Approved in the latest Division of Revenue Act for Knysna is an amount of R20 million rising to R40 million over the next three years. This is for a joint water project between us and Bitou on the Keurbooms river to hopefully ensure both our long term water needs. The moneys sit on the Eden District budget.

iv. The challenge of promoting Economic Development

Our Economic Development strategy focuses on mainstreaming previously disadvantaged people. Crucial to this is the need to work in partnership with relevant stakeholders in boosting employment and fostering SMMEs and our SCM policies and strategies have been tailored to support this challenge.

v. The challenge of ensuring municipal financial viability

A municipality lives and dies by its ability to balance needs with resources. Knysna Municipality cannot generate sufficient resources to properly satisfy all its residents and stakeholder needs. Therefore those needs will have to be managed and dealt with in a financially sustainable manner. Promises of quick and easy solutions are simply lies. The biggest challenge will be in trying to maintain service standards at current levels and where the municipality should lessen its standards.

vi. The challenge of municipal transformation and institutional development

Staff development is crucial to meet the challenges of Knysna and the new ethos of local government. The Employment Equity imperatives have to be assessed continually to ensure that Knysna Municipality's transformation remains in line with the broader transformation agenda of South Africa. Knysna does not have the luxury of competing in terms of salary and therefore our ability to attract qualified and quality staff is severely limited. We must therefore endeavour to develop from within. The municipality is

currently engaged in an organisational review with a view to optimising our human capital.

vii. Public Participation

Public Participation is an important feature of any democratic environment. Although the legislative environment provides adequately for public participation, Knysna Municipality is challenged to ensure that it continues to build on its successes over the last few years.

Section 7 - Measurable Performance Objectives and Indicators

Indicators and ratios

The key financial indicators and ratios mentioned below are disclosed in Annexure 2, 'Supporting Table SA8: Performance indicators and benchmarks':

- Borrowing management
- Safety of capital
- Liquidity
- Debtors' and creditors' management
- Mix of expenditure types
- Mix of revenue sources
- Unaccounted for losses in respect of services rendered

Funding measure ratios are disclosed in Annexure 2 'Supporting Table SA10: Funding measurement'.

Drinking water quality and waste water management

Due to concerns surrounding the quality of municipal drinking water and failures in the management of waste water, National Treasury requires that the following section is included in the 2015/16 budget document.

- i. **Water Services Authority & Water Services Provider:**
Knysna Municipality

Blue Drop Status

The quality of the drinking water supply in the Greater Knysna Municipal Area is tested monthly by the municipality itself as well as the Eden District Municipality and the quality of potable water is constantly above the national norms. Council has received Blue Drop Status for the Karatara Water Treatment Works and continuously strives to improve on water quality. The Knysna (94.5%) and Buffalo Bay (86%) Water Treatment Works marginally missed out on Blue Drop status subsequent to an independent audit considering that the threshold for Blue Drop status is 95%. Appropriate mechanisms have been put in place to also obtain Blue Drop Status for these two plants in the next round of auditing.

Domestic users are still the main user of water in the area, followed by the industrial sector and lastly agriculture. Household usage

normally peaks in the holiday season during December - February when the holiday houses are usually 100% occupied

ii. Green Drop Status

Knysna Municipality places a high priority on sanitation services and one of the Municipality's greatest challenges regarding sanitation is to expand the infrastructure to meet future development requirements. The Council realises that the achievement of its strategic objectives relies heavily on the establishment of proper infrastructure for basic service delivery and the maintenance thereof. None of the existing seven waste water treatment works in the GKMA has Green Drop Status and the municipality is continuously improving on its efforts to achieve Green Drop Status for its major systems. The functioning of the Knysna waste water treatment works was of critical concern given its proximity to the estuary and the aged infrastructure. A major upgrade and refurbishment of the Knysna waste water treatment works is now complete and will allow additional capacity to the sewerage works. This will certainly unlock business development potential, attract investment to the area and facilitate the implementation of residential development. A proper final effluent quality control programme is functional to minimise the risk of pollution of the estuary and ground water sources. The outflow from the plant is monitored by the Eden District Municipality, and this monitoring includes monitoring several sites in the Knysna estuary.

iii. Challenges

The challenges, as mentioned, are for capital funding to provide additional capacity for bulk water and sewer services to meet the growth of the various towns. Grant funding is currently used and additional grant funding is being applied for, however an extended period is envisaged to fund all constraints to growth resulting from the water and waste water services. Human Resources also are a challenge and need to be addressed within the operational budget by growing one's own timber.

Section 8 - Overview of Budget Related Policies

The detailed policies themselves are not included in this section of the budget documentation.

See Annexure 6 to this document for the full policies.

Policies are also available at the Council offices in Clyde Street for viewing as well as on the Internet at www.knysna.gov.za. This section gives a **broad overview** of the budget policy framework and highlights the amended policies to be approved by Council resolution.

Name of Policy	Type	Date of Council adoption (if already done)	Purpose / Basic areas covered by Policy	Summary of proposed changes for adoption in May 2015
REVENUE RELATED				
Rates	Amended	28 May 2015	Setting criteria for establishing rates tariffs	Minor definitional
Credit control	Amended	28 May 2015	Principles and guidelines to be followed with respect to arrear consumer debt control	Minor definitional
Indigent support & social rebate	Amended	28 May 2015	Guidelines and procedures for the subsidization of rates and basic services to indigent households	Minor definitional
BUDGET AND EXPENDITURE RELATED				
Liability, investment & cash management	Not amended	28 May 2015	Guideline of procedures to be followed when investing or lending money	n/a
Budget	Not amended	28 May 2015	Sets out rules and procedures to be followed in the compilation and management of the budget	n/a
Supply chain management	Amended	28 May 2015	Dictates procedures for the procurement of goods and services	Major changes to be presented on Budget Workshop by Manager: SCM
Funding and reserves policy	Not Amended	28 May 2015	Sets standards and guidelines for financial viability	n/a

Section 9 - Overview of Budget Assumptions

Introduction

Knysna's financial system still operates on the big wheel, little wheel principle, the same as virtually every other local authority outside the major metropolitan areas. What this means is that the middle to upper income groupings are billed for the vast majority of Council services. In the municipality the established areas take up 94% of debits raised as against 6% in the previously disadvantaged areas.

Budget Assumptions

Budgets are prepared in an environment of uncertainty. To prepare meaningful budgets, assumptions need to be made about internal and external factors that could influence the budget.

External factors (population migration, employment, etc)

As evidenced in the latest census over recent years Knysna has experienced rapid population growth particularly at the poorer end of the economic scale. Knysna is a victim of the success of its low income housing programme. The population growth must be seen against the backdrop of very limited developable land, a sensitive environment and the lack of new jobs being created in the local economy. This presents a huge challenge to Council to improve the efficiency of its urban systems. The unique and sensitive environment of Greater Knysna is under pressure and Council has to manage the growth demands of the economy very rigidly to ensure environmental sustainability.

Growth or decline in tax base of the municipality

No growth has been built in as future growth in the tax base over the MTREF.

The revised headline CPI forecasts from National Treasury for 2015/16, 2016/17 and 2017/18 are 5.4%, 5.6% and 5.4% respectively. The growth parameters apply to tariff increases for property rates, user and other charges raised by municipalities and municipal entities, to ensure that all spheres of government support the national macroeconomic policies. National Treasury have announced that local increases must be in line with the CPI forecasts and that a salary increase of only 6% should be budgeted for. NT has also communicated that any rate or tariff increase above 6% must be fully communicated to the community.

Rates, tariffs, charges and timing of revenue collection

The rates, tariffs and charges for the 2015/16 budget are included in Annexure 3.

The following table shows the assumed average domestic percentage increases built into the MTREF for rates, tariffs and charges:

	<u>2015/16</u>	<u>2016/17</u>	<u>2017/18</u>
Rates	10%	9%	9%
Refuse	10%	9%	9%
Water- fixed and consumption	12%	12%	12%
Sewer	10%	9%	9%
Electricity - monthly consumption tariff	12.25%	12,25%	12.25%

The Municipality has in place a fair but rigorous credit control policy and has a good record of debt recovery. Furthermore, its policy on indigent support and social rebates means that many households who would normally struggle to pay their accounts receive free or subsidised basic services thereby keeping them free of the burden of municipal debt. Nevertheless, there will always be an element of the total amount billed that will remain uncollected. The Municipality is the same as any other business in this regard. Adequate provision has to be made in the budget for any bad debts based on assumptions on collection rates.

The following bad debt provisions and collection rates are assumed in the MTREF for rates and tariffs.

<u>R '000</u>	<u>2015/16</u>	<u>2016/17</u>	<u>2017/18</u>
Annual contribution to provision for bad and doubtful debts	20 220	21 542	23 106
Table A4: Debt impairment			
Assumed collection rate(%)	94.0%	94.0%	95.0%

The following amounts are included in the MTREF for increases in bulk purchases:

<u>R '000</u>	<u>2015/16</u>	<u>2016/17</u>	<u>2017/18</u>
Bulk Purchases	119 175	137 051	159 664
Table A4: Bulk purchases			

More detail relating to specific items can be found in Annexure 2, 'Supporting Table SA1: Supporting detail to 'Budgeted Financial Performance'.

Trends in demand for free or subsidised basic services

Knysna's criteria for supporting free or subsidised basic services are set out in our Indigent Support and Social Rebate Policy. The Government allocates revenue via the Division of Revenue Act (DORA) in the form of the Equitable Share with the primary aim of assisting municipalities with the costs of providing free or subsidised basic services.

Section 10 - Overview of Budget Funding

Funding the Budget

Section 18(1) of the MFMA states that an annual budget may only be funded from:

- Realistically anticipated revenues to be collected;
- Cash backed accumulated funds from previous years' surpluses not committed for other purposes; and
- Borrowed funds, but only for the capital budget referred to in section 17.

Achievement of this requirement in totality effectively means that a Council has 'balanced' its budget by ensuring that budgeted outflows will be offset by a combination of planned inflows. Refer to Section 4, 'Table A8: Cash backed reserves/accumulated surplus reconciliation' and Annexure 2, 'Supporting Table SA10: Funding measurement'.

Fiscal Overview of Knysna Municipality

Knysna Municipality has over recent years moved to a position of relative financial stability. There is a high level of compliance with the Municipal Finance Management Act and other legislation directly affecting financial management. Knysna has received seven unqualified audits in a row with the last two being regarded as "clean".

Section 11 - Expenditure on Allocations and Grant Programmes

Disclosure on expenditure on allocations and grant programmes is done by way of Annexure 2, “Supporting Table SA18: Transfers and grant receipts, Supporting Table SA19: Expenditure on transfers and grant programme and Supporting Table SA20: Reconciliation of transfers, grant receipts and unspent funds”.

Expenditure for each grant for the MTREF period is summarised in the table below. Note that the expenditures include the VAT portion that is recognised as expenditure on grant allocations per MFMA Circulars 48 and 58.

National and Provincial Conditional Grant Allocations 2015/16 to 2017/18					
Name of Grant	Allocating Authority / Department	Budget 2015/16 R'000	Indicative 2016/17 R'000	Indicative 2017/18 R'000	Purpose of the Grant
Integrated housing and human settlement development grant <i>Capital & Operational</i> <i>*Outer year figures are currently assumptions as final figures have not been gazetted</i>	Province/ Local Government and Housing	53 384	51 734	42 900	To finance the funding requirements of national housing programmes (excluding recurrent costs recoverable from assets falling under the pre-1994 stock). To facilitate the establishment and maintenance of integrated and sustainable human settlements to ensure economically viable and socially equitable communities in areas with ecological integrity.
Library Services <i>Capital & Operational</i>	Province/ Cultural Affairs and Sport	5 161	5 471	7 299	To enable public libraries to render an improved service by addressing staffing shortages.
Community Development Worker <i>Operational only</i>	Province/ Local Government and Housing	54	57	60	To provide financial assistance to municipalities to cover the operating costs pertaining to the functions of the CDW's

Maintenance of Proclaimed Roads <i>Operational only</i>	Province/ Transport and Public Works	67	0	0	To provide routine maintenance and/or resealing on proclaimed roads (National Roads)
Hazardous Locations	Transport and Public Works Western Cape (Vote 10)	0	0	0	To improve pedestrian safety in Nekkies, Knysna. A pedestrian bridge over the N2.
Local Government Financial Management Grant (FMG) <i>Operational only</i>	National / National Treasury	1 450	1475	1550	To promote and support reforms in financial management by building the capacity in municipalities to implement the Municipal Finance Management Act.
Name of Grant	Allocating Authority / Department	Budget 2015/16 R'000	Indicative 2016/17 R'000	Indicative 2017/18 R'000	Purpose of the Grant
Municipal Infrastructure Grant (MIG)* <i>Capital & Operational</i>	National / Provincial and Local Government (National Vote 29)	24 304	25 137	24 304	To supplement capital finance for basic municipal infrastructure for poor households, micro enterprises and social institutions. The operating portion is utilised for the Project Management Unit.
Municipal Systems Improvement Grant (MSIG) <i>Capital & Operational</i>	Cooperative Governance and Traditional Affairs (Vote 3)	930	957	1 033	To assist municipalities build in-house capacity to perform their functions and stabilise institutional and governance systems as required in the Municipal Systems Act and related legislation, policies and the local government turnaround strategy.
Integrated National Electrification Programme (INEP) <i>Capital & Operational</i>	National / Minerals and Energy (National Vote 28)	6 000	4 000	3 000	To implement the Programme by providing capital subsidies to municipalities to address the electrification backlog of permanently occupied residential dwellings, the

					installation of bulk infrastructure and rehabilitation and refurbishment of electricity infrastructure in order to improve quality of supply.
Expanded Public Works Programme Integrated Grant for Municipalities <i>Operational only</i>	Public Works (Vote 7)	1002	0	0	To incentivise municipalities to expand work creation efforts through the use of labour intensive delivery methods in identified focus areas, in compliance with the Expanded Public Works Programme guidelines.
Equitable Share <i>Operational only</i>	National / Provincial and Local Government	56 163	62 237	67 761	

Section 12 - Allocations and Grants made by the Municipality

Allocations Made by the Municipality

Description	Ref	2011/12	2012/13	2013/14	Current Year 2014/15				2015/16 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
Cash Transfers to Organisations											
<i>Leisure Isle Residents Association</i>	4	–	32	33	38	38	38	38	41	44	47
<i>Animal Welfare</i>		214	350	400	432	432	432	432	462	495	529
<i>Grants-in-aid and Donations</i>		628	771	684	576	576	576	576	616	659	706
<i>Tourism and Marketing</i>		4 495	4 300	3 700	4 000	4 000	4 000	4 000	4 000	4 000	4 000
<i>Sedgefield Island Conservancy</i>		–	–	–	10	10	10	10	–	–	–
<i>Local Economic Development</i>		–	–	–	–	–	–	–	–	–	–
<i>HIV/AIDS</i>		–	–	–	–	–	–	–	–	–	–
Total Cash Transfers To Organisations		5 337	5 452	4 816	5 056	5 056	5 056	5 056	5 119	5 198	5 281
Cash Transfers to Groups of Individuals											
<i>Bursary Scheme</i>	5	179	8	3	258	208	208	208	223	238	255
<i>Grants-in-aid and Donations</i>		268	150	178	200	200	200	200	214	229	245
Total Cash Transfers To Groups Of Individuals:		447	158	181	458	408	408	408	437	467	500
TOTAL CASH TRANSFERS AND GRANTS	6	5 784	5 610	4 998	5 514	5 464	5 464	5 464	5 556	5 665	5 781

The above table depicts all transfers and Grants made by Council to outside organisations within the KM area. The largest allocation is for tourism and marketing.

Section 13 - Councillor Allowances and Employee Benefits

Summary of Employee and Councillor remuneration	Ref	2011/12	2012/13	2013/14	Current Year 2014/15			2015/16 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
R thousand		A	B	C	D	E	F	G	H	I
Councillors (Political Office Bearers plus Other)	1									
Basic Salaries and Wages		3 730	3 917	4 102	4 383	4 383	4 383	4 579	4 900	5 243
Pension and UIF Contributions		200	236	245	256	256	256	243	260	278
Medical Aid Contributions		85	69	58	82	82	82	—	—	—
Motor Vehicle Allowance		1 339	1 407	1 440	1 634	1 634	1 634	1 579	1 689	1 807
Cellphone Allowance		266	279	394	310	310	310	416	445	477
Housing Allowances		—	—	—	—	—	—	—	—	—
Other benefits and allowances		—	—	—	—	—	—	—	—	—
Sub Total - Councillors		5 619	5 908	6 240	6 665	6 665	6 665	6 817	7 294	7 804
% increase	4		5.1%	5.6%	6.8%	—	—	2.3%	7.0%	7.0%

The above table depicts Councillors Remuneration. A 2.3 % increase based on 14/15 budgeted figures is anticipated.

et

Summary of Employee and Councillor remuneration	Ref	2011/12	2012/13	2013/14	Current Year 2014/15			2015/16 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
R thousand		A	B	C	D	E	F	G	H	I
Senior Managers of the Municipality	2									
Basic Salaries and Wages		4 621	3 754	5 678	6 894	6 311	6 311	6 689	7 158	7 659
Pension and UIF Contributions		654	297	588	481	481	481	510	546	584
Medical Aid Contributions		65	29	76	124	106	106	113	121	129
Overtime		—	—	—	—	—	—	—	—	—
Performance Bonus		335	454	898	220	821	821	870	931	996
Motor Vehicle Allowance		506	170	477	439	439	439	466	498	533
Cellphone Allowance		—	58	—	—	—	—	—	—	—
Housing Allowances		—	—	—	—	—	—	—	—	—
Other benefits and allowances		308	—	167	225	225	225	238	254	272
Payments in lieu of leave		—	155	—	—	—	—	—	—	—
Long service awards		—	—	—	—	—	—	—	—	—
Post-retirement benefit obligations		—	—	—	—	—	—	—	—	—
Sub Total - Senior Managers of Municipality		6 488	4 918	7 884	8 383	8 383	8 383	8 887	9 508	10 174
% increase	4		(24.2%)	60.3%	6.3%	—	—	6.0%	7.0%	7.0%
Other Municipal Staff										
Basic Salaries and Wages		79 609	83 795	89 691	97 198	103 585	103 585	114 997	122 947	131 427
Pension and UIF Contributions		13 026	14 681	16 325	19 173	19 173	19 173	20 774	22 223	23 775
Medical Aid Contributions		7 501	8 259	8 981	11 743	11 743	11 743	12 612	13 489	14 430
Overtime		8 881	10 491	13 239	7 016	8 466	8 466	11 109	11 776	12 482
Performance Bonus		5 739	7 014	7 415	7 825	7 825	7 825	9 159	9 800	10 486
Motor Vehicle Allowance		2 751	3 557	3 893	4 195	4 195	4 195	4 398	4 721	5 022
Cellphone Allowance		—	(58)	—	—	—	—	—	—	—
Housing Allowances		1 393	1 493	1 700	2 049	2 049	2 049	2 048	2 192	2 345
Other benefits and allowances		4 247	5 330	5 595	5 375	5 323	5 323	5 804	6 219	6 632
Payments in lieu of leave		1 337	2 814	2 653	1 518	1 518	1 518	1 608	1 702	1 799
Long service awards		1 436	1 553	1 866	1 524	1 524	1 524	1 872	1 984	2 103
Post-retirement benefit obligations		7 265	8 078	9 342	7 707	7 707	7 707	8 274	10 888	11 538
Sub Total - Other Municipal Staff		133 187	147 007	160 700	165 323	173 107	173 107	192 654	207 939	222 040
% increase	4		10.4%	9.3%	2.9%	4.7%	—	11.3%	7.9%	6.8%
Total Parent Municipality		145 295	157 832	174 824	180 371	188 156	188 156	208 358	224 741	240 018
TOTAL SALARY, ALLOWANCES & BENEFITS		145 295	157 832	174 824	180 371	188 156	188 156	208 358	224 741	240 018
% increase	4		8.6%	10.8%	3.2%	4.3%	—	10.7%	7.9%	6.8%
TOTAL MANAGERS AND STAFF	5,7	139 676	151 924	168 584	173 706	181 491	181 491	201 541	217 447	232 214

A National Treasury recommended 6% salary increase for 2015/16 for managers and staff is budgeted. The total increase will amount to 11.3% on the adjusted funded budget for 2014/15 resulting in a final budget of R192.6 million.

Section 14 - Monthly Targets for Revenue, Expenditure and Cash Flow

Disclosure on monthly targets for revenue, expenditure and cash flow is made in Annexure 2, however the breakdown is as follows:

Description	Budget Year 2015/16												Medium Term Revenue and Expenditure Framework		
	July	August	Sept.	October	November	December	January	February	March	April	May	June	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
R thousand															
Revenue By Source															
Property rates	159 673	(20)	(20)	(20)	(20)	(20)	(20)	(20)	(20)	(20)	(20)	(20)	15 926	175 403	201 733
Property rates - penalties & collection charges	234	234	234	234	234	234	234	234	234	234	234	234	3 056	3 331	3 631
Service charges - electricity revenue	20 064	15 529	15 454	15 285	15 262	16 526	16 059	9 585	15 724	15 452	14 771	48 019	217 731	245 359	276 495
Service charges - water revenue	14 880	3 380	2 930	2 359	2 840	2 620	4 299	3 265	3 238	3 352	2 485	8 388	54 036	67 132	71 629
Service charges - sanitation revenue	10 807	60	60	58	60	59	58	58	59	58	59	1 220	12 618	13 499	14 445
Service charges - refuse revenue	15 299	6	6	4	5	4	4	5	3	6	6	1 540	16 886	18 575	20 433
Service charges - other	334	290	334	285	296	302	289	296	319	301	302	627	3 975	4 333	4 722
Rental of facilities and equipment	352	274	340	346	349	345	457	386	378	380	384	1 490	5 482	5 977	6 516
Interest earned - external investments	58	58	222	58	58	304	222	222	222	222	222	1 328	3 200	3 400	3 600
Interest earned - outstanding debtors	309	313	299	325	309	305	264	272	255	263	156	471	3 542	3 753	4 089
Dividends received	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fines	1 345	1 321	1 238	1 330	1 282	1 290	1 318	64 360	1 528	1 300	334	2 826	79 471	86 623	94 418
Licences and permits	134	129	132	158	140	106	190	181	192	173	191	452	2 179	2 331	2 541
Agency services	157	157	146	171	149	142	151	147	130	141	154	205	1 850	1 950	1 960
Transfers recognised - operational	19 193	1 262	1 412	1 138	2 564	13 902	1 782	17 116	12 393	1 645	1 780	19 617	93 803	104 483	108 783
Other revenue	570	56	349	15	136	336	35	165	322	55	79	1 502	3 619	4 089	5 115
Gains on disposal of assets	3	3	3	3	3	3	3	3	3	3	3	250	250	250	250
Total Revenue (excluding capital transfers and cont)	243 411	23 051	23 139	21 749	23 668	36 456	25 344	96 275	34 981	23 564	21 141	104 321	677 101	753 620	820 560
Expenditure By Type															
Employee related costs	10 355	11 527	19 587	10 727	18 165	11 044	10 973	42 447	12 165	11 400	11 393	31 757	201 541	217 447	232 214
Remuneration of councillors	525	525	525	525	525	525	560	650	572	572	572	741	6 817	7 294	7 804
Debt impairment	2 089	2 089	2 089	2 089	2 089	2 089	2 089	2 089	2 089	2 089	2 089	71 282	94 369	100 975	108 043
Depreciation & asset impairment	2 351	2 350	2 350	2 350	2 350	2 350	2 350	2 349	2 349	2 349	2 349	3 297	29 146	32 544	34 749
Finance charges	-	-	339	-	-	1 302	-	8 807	2 590	-	-	3 531	16 568	15 586	16 520
Bulk purchases	11 749	11 749	11 749	11 749	11 749	11 749	11 749	11 749	11 749	11 749	11 749	16 924	146 160	154 954	168 900
Other materials	605	766	699	788	2 384	1 518	1 764	3 040	930	957	734	4 767	18 950	19 871	20 790
Contracted services	843	1 366	1 868	1 853	1 403	2 387	1 535	1 978	1 402	1 500	1 239	5 897	23 272	24 598	24 903
Transfers & grants	443	933	495	412	366	366	366	366	366	366	366	712	5 556	5 665	5 781
Other expenditure	6 599	6 020	5 767	5 328	5 300	4 239	5 411	36 215	6 210	8 499	6 463	41 447	137 499	151 346	156 309
Loss on disposal of PPE	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Expenditure	35 568	37 335	45 477	35 831	44 340	37 577	36 806	109 700	40 431	39 491	36 963	180 356	679 877	730 280	776 013
Surplus/(Deficit)	207 843	(14 284)	(22 338)	(14 082)	(20 672)	(1 121)	(11 462)	(13 425)	(5 450)	(15 927)	(15 822)	(76 035)	(2 778)	23 340	44 547
Transfers recognised - capital	3	3	7 957	3	3	7 719	358	9 278	9 294	2 069	1 003	18 535	56 265	46 586	41 027
Contributions recognised - capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Contributed assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Surplus/(Deficit) after capital transfers & contributions	207 846	(14 281)	(14 381)	(14 079)	(20 669)	6 598	(11 064)	(4 147)	3 844	(13 858)	(14 819)	(57 500)	53 489	69 926	85 574
Taxation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Attributable to minorities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share of surplus/ (deficit) of associate	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Surplus/(Deficit)	207 846	(14 281)	(14 381)	(14 079)	(20 669)	6 598	(11 064)	(4 147)	3 844	(13 858)	(14 819)	(57 500)	53 489	69 926	85 574

The above table depicts consolidated projections of revenue by source and expenditure by type for 2015/16 budget per period and the following table depicts the same table but on a Directorate/ Vote level:

Description	Ref	Budget Year 2015/16												Medium Term Revenue and Expenditure Framework		
		July	August	Sept.	October	November	December	January	February	March	April	May	June	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
R thousand																
Revenue by Vote																
Vote 1 - Executive & Council		2 609	(29)	3	(66)	1 035	986	(68)	967	740	3	3	2 307	8 491	9 596	10 584
Vote 2 - Corporate Services		579	143	143	174	172	172	282	203	203	203	205	1 166	3 644	3 986	4 411
Vote 3 - Financial Services		160 641	793	970	569	571	826	731	1 631	754	715	921	18 442	187 563	210 872	225 758
Vote 4 - Strategic Services		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Vote 5 - Planning & Development		652	652	6 592	656	1 124	7 064	1 124	22 719	7 243	1 124	1 123	6 995	57 068	54 668	46 150
Vote 6 - Community Services		21 527	2 205	2 314	2 320	2 211	5 990	2 727	65 780	6 277	3 320	1 322	9 691	125 682	135 924	149 329
Vote 7 - Electrical Services		25 117	15 677	16 276	15 428	15 410	20 454	16 202	10 311	19 332	15 771	15 087	56 259	241 325	269 243	301 188
Vote 8 - Technical Services		32 289	3 613	4 798	2 671	3 148	8 684	4 742	3 943	9 725	4 497	3 484	27 997	109 593	115 917	124 167
Total Revenue by Vote		243 414	23 054	31 096	21 752	23 671	44 175	25 742	105 553	44 275	25 632	22 144	122 857	733 366	800 206	861 587
Expenditure by Vote to be appropriated																
Vote 1 - Executive & Council		3 574	2 928	11 545	1 996	2 051	1 966	1 915	4 586	1 983	1 982	1 927	4 997	41 450	46 702	48 798
Vote 2 - Corporate Services		2 390	2 026	2 005	2 126	3 059	1 093	2 031	3 592	2 058	1 928	2 041	5 653	30 004	33 231	34 202
Vote 3 - Financial Services		3 327	3 784	3 361	3 776	4 711	3 643	3 043	7 777	3 504	6 815	4 760	14 205	62 706	68 414	71 825
Vote 4 - Strategic Services		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Vote 5 - Planning & Development		1 745	1 815	1 881	1 880	2 347	2 450	1 849	23 878	2 087	2 168	1 896	10 808	54 802	65 869	66 559
Vote 6 - Community Services		5 428	6 706	6 481	6 305	9 102	7 067	7 216	14 341	6 179	6 676	6 424	88 614	170 541	181 673	195 013
Vote 7 - Electrical Services		2 321	2 750	3 000	2 951	3 019	3 126	3 501	140 017	3 258	3 410	3 292	25 944	196 588	207 922	225 224
Vote 8 - Technical Services		5 035	5 577	5 455	5 047	6 302	6 463	5 503	32 997	9 615	4 764	4 674	30 134	123 786	126 409	134 403
Total Expenditure by Vote		23 820	25 587	33 728	24 082	32 591	25 829	25 058	227 188	28 682	27 742	25 214	180 356	679 877	730 280	776 013
Surplus/(Deficit) before assoc.		219 595	(2 533)	(2 633)	(2 330)	(8 920)	18 347	684	(121 634)	15 592	(2 110)	(3 070)	(57 500)	53 489	69 926	85 574

Monthly capital budget revenue and expenditure projections

The following table depicts budgeted monthly capital expenditure by Municipal vote:

Description	Ref	Budget Year 2015/16												Medium Term Revenue and Expenditure Framework		
		July	August	Sept.	October	Nov.	Dec.	January	Feb.	March	April	May	June	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
R thousand																
Multi-year expenditure to be appropriated	1															
Vote 1 - Executive & Council		-	-	-	433	433	433	433	-	-	-	-	(1 730)	-	-	-
Vote 2 - Corporate Services		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Vote 3 - Financial Services		-	-	-	-	-	-	-	-	-	-	-	1 000	1 000	-	-
Vote 4 - Strategic Services		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Vote 5 - Planning & Development		-	-	265	2 043	1 461	1 187	1 939	561	1 700	1 708	1 708	16 800	29 377	22 029	16 522
Vote 6 - Community Services		-	-	-	-	-	-	-	-	-	-	-	2 330	2 330	1 750	400
Vote 7 - Electrical Services		-	-	150	1 290	150	150	150	150	150	150	150	13 413	15 863	7 209	3 432
Vote 8 - Technical Services		48	781	48	48	781	48	2 742	948	1 387	2 255	1 676	11 722	22 484	18 170	20 195
Capital multi-year expenditure sub-total		48	781	48	3 773	2 825	1 818	5 284	1 680	3 236	4 113	3 534	43 535	71 049	49 158	40 549
Single-year expenditure to be appropriated	2															
Vote 1 - Executive & Council		-	-	-	-	16	-	-	16	-	-	16	1 492	1 540	20	20
Vote 2 - Corporate Services		-	-	-	-	-	27	-	-	27	-	27	(70)	10	10	10
Vote 3 - Financial Services		-	-	-	-	22	190	-	212	-	-	213	338	975	1 504	745
Vote 4 - Strategic Services		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Vote 5 - Planning & Development		28	44	24	28	76	12	-	8	62	62	70	(153)	260	20	20
Vote 6 - Community Services		-	-	-	-	-	83	917	917	1 026	834	110	4 073	8 235	5 889	7 459
Vote 7 - Electrical Services		-	290	200	961	167	-	17	119	44	176	339	1 507	3 819	1 427	1 147
Vote 8 - Technical Services		91	91	91	91	159	91	159	91	159	91	160	5 378	6 585	12 212	9 042
Capital single-year expenditure sub-total	2	119	425	315	1 163	632	403	1 025	1 432	1 290	1 162	934	12 564	21 424	21 082	18 443
Total Capital Expenditure	2	167	1 207	777	4 936	3 458	2 221	6 289	3 092	4 486	5 275	4 468	56 099	92 473	70 240	58 992

Monthly cash flow projections

The below table indicates Budgeted monthly cash flow' that sets out receipts by source and payments by type for both operating and capital, broken down per month for the budget year, and shown in total for the following two years:

MONTHLY CASH FLOWS	R thousand	Budget Year 2015/16												Medium Term Revenue and Expenditure Framework		
		July	August	Sept.	October	November	December	January	February	March	April	May	June	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
Cash Receipts By Source														1		
Property rates	13 886	13 886	13 886	13 886	13 886	13 886	13 886	13 886	13 886	13 886	13 886	13 886	13 886	166 633	179 108	191 646
Property rates - penalties & collection charges	242	242	242	242	242	242	242	242	242	242	242	242	242	2 903	3 164	3 449
Service charges - electricity revenue	19 061	14 753	14 681	14 521	14 459	15 700	15 256	9 106	14 938	14 679	14 033	45 618	206 844	233 091	262 870	
Service charges - water revenue	14 136	3 211	2 783	2 241	2 698	2 489	4 084	3 102	3 076	3 184	2 361	7 969	51 334	63 775	68 238	
Service charges - sanitation revenue	10 267	57	57	56	57	56	55	55	55	56	55	56	1 159	11 987	12 824	13 723
Service charges - refuse revenue	14 534	5	6	4	5	4	4	5	2	5	6	6	1 463	16 042	17 646	19 411
Service charges - other	318	275	317	271	281	287	275	281	303	286	287	286	3 776	4 116	4 486	
Rental of facilities and equipment	334	260	323	329	332	328	434	367	359	361	365	365	1 416	6 206	6 678	6 190
Interest earned - external investments	58	58	222	58	58	304	222	222	222	222	222	222	1 328	3 200	3 400	3 600
Interest earned - outstanding debtors	293	298	284	308	294	290	251	258	243	250	148	447	3 365	3 565	3 885	
Dividends received	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fines	204	201	188	202	195	196	200	9 768	232	197	51	429	12 061	14 494	17 240	
Licences and permits	134	129	132	158	140	106	190	181	192	173	191	452	2 179	2 331	2 541	
Agency services	157	157	146	171	149	142	151	147	130	141	154	205	1 850	1 950	1 960	
Transfer receipts - operational	19 193	1 262	1 412	1 138	2 564	13 902	1 782	17 116	12 393	1 645	1 780	19 617	93 803	104 483	108 783	
Other revenue	570	56	349	15	136	336	35	165	322	55	79	1 502	3 619	4 089	5 115	
Cash Receipts by Source	93 387	34 850	35 029	33 600	35 536	48 266	37 066	54 901	46 597	35 382	33 861	96 329	584 805	653 717	712 938	
Other Cash Flows by Source																
Transfer receipts - capital	3	3	7 765	3	3	7 533	388	9 054	9 069	2 019	979	18 087	54 904	46 586	41 027	
Contributions recognised - capital & Contributed assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Proceeds on disposal of PPE	-	-	-	-	-	-	-	-	-	-	-	-	250	250	250	
Short term loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Borrowing long term/financing	-	-	-	-	-	7 366	-	-	-	-	-	-	7 366	14 732	11 570	9 660
Increase (decrease) in consumer deposits	36	36	36	36	36	36	36	36	36	36	36	36	433	450	468	
Decrease (increase) in non-current debtors	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Decrease (increase) other non-current receivables	10	10	10	10	10	10	10	10	10	10	10	10	125	125	125	
Decrease (increase) in non-current investments	(95)	(95)	(95)	(95)	(95)	(95)	(95)	(95)	(95)	(95)	(95)	(95)	(1 136)	(1 193)	(1 252)	
Total Cash Receipts by Source	93 342	34 804	42 745	33 554	35 491	63 116	37 406	63 907	55 618	37 352	34 792	121 983	654 112	711 505	763 215	
Cash Payments by Type																
Employee related costs	9 933	11 058	18 789	10 290	17 425	10 594	10 526	40 718	11 669	10 935	10 928	30 463	193 329	206 456	220 397	
Remuneration of councillors	525	525	525	525	525	525	560	650	572	572	572	741	6 817	7 294	7 804	
Finance charges	-	-	339	-	-	1 302	-	8 807	2 590	-	-	-	3 331	16 568	15 586	16 520
Bulk purchases - Electricity	11 945	11 945	11 945	11 945	11 945	11 945	11 945	11 945	11 945	11 945	11 945	11 945	143 337	153 086	167 343	
Bulk purchases - Water & Sewer	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other materials	593	751	685	773	2 338	1 489	1 730	2 981	912	939	719	4 675	18 584	19 631	20 598	
Contracted services	827	1 340	1 831	1 817	1 376	2 341	1 506	1 940	1 375	1 471	1 215	5 783	22 822	24 302	24 673	
Transfers and grants - other municipalities	443	923	495	412	366	366	366	366	366	366	366	712	5 656	6 665	5 781	
Other expenditure	6 479	5 911	5 662	5 231	5 204	4 162	5 313	35 559	6 098	8 345	6 346	40 695	136 008	149 691	155 046	
Cash Payments by Type	30 745	32 462	40 272	30 993	39 178	32 722	31 945	102 965	35 528	34 573	32 091	98 548	542 019	581 711	618 162	
Other Cash Flows/Payments by Type																
Capital assets	167	1 207	777	4 936	3 458	2 221	6 289	3 092	4 486	5 275	4 468	56 099	92 473	70 240	58 992	
Repayment of borrowing	-	-	-	-	-	9 850	-	-	-	-	-	-	9 850	19 700	19 353	24 077
Other Cash Flows/Payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Cash Payments by Type	30 912	33 669	41 049	35 929	42 636	44 793	38 234	106 058	40 012	39 847	36 559	164 495	654 191	671 304	701 231	
NET INCREASE/(DECREASE) IN CASH HELD	62 430	1 135	1 696	(2 375)	(7 145)	18 323	(8 228)	(42 149)	15 607	(2 495)	(1 767)	(42 512)	(79)	40 201	61 984	
Cash/cash equivalents at the month/year begin:	15 132	77 562	78 697	80 393	78 018	70 874	89 197	88 369	46 220	61 826	59 331	57 564	15 132	15 053	55 253	
Cash/cash equivalents at the month/year end:	77 562	78 697	80 393	78 018	70 874	89 197	88 369	46 220	61 826	59 331	57 564	15 053	15 053	55 253	117 237	

Section 15 - Annual Budgets and Service Delivery and Budget Implementation Plans - Internal Directorates

Adoption of the Service Delivery and Budget Implementation Plan

In terms of section 53(1)(c)(ii) of the MFMA the Service Delivery and Budget Implementation Plan must be approved by the Mayor within 28 days after the final approval of the budget.

Contents of the SDBIP

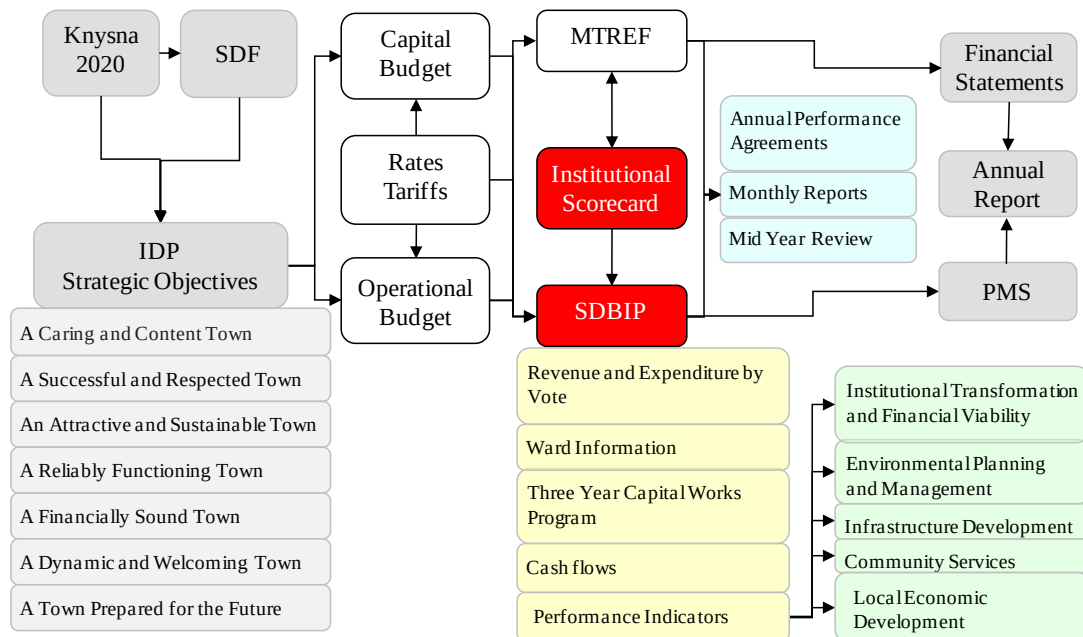
The SDBIP must contain monthly projections of income and expenditure and quarterly projections of measurable performance objectives.

Some annual targets are still to be confirmed. These will be included in the final budget documentation and SDBIP.

SDBIP requirements

The SDBIP is essentially a business plan and is an integral part of the financial planning process. Although its approval is required after the budget, its preparation occurs in tandem with the budget process. The SDBIP is the connection between the strategic plan, IDP, budget and management performance agreements, and includes detailed information on how the budget will be implemented, by means of forecast cash flows and service delivery targets and performance indicators. The schematic below sets out its importance in the municipal reporting cycle.

SDBIP Placement



National and Provincial Government refer to five national KPAs they regard as essential to Local Authorities meeting their responsibilities these are:

1. Institutional Transformation and Financial Viability
2. Environmental Planning and Management
3. Infrastructure Development
4. Community Services
5. Local Economic Development

In addition Local Government Turnaround Strategy (LGTAS) has identified six key thematic problem areas that need to be addressed in varying degrees by municipalities:

1. Service delivery
2. Spatial conditions
3. Governance
4. Financial Management
5. Local Economic Development
6. Labour Relations

Institutional Scorecard

The Institutional Scorecard is a synopsis of the planned SDBIP for the medium term 2015/2016 to 2017/2018. The scorecard has been aligned with the National KPA and the Municipal KPA (IDP strategic objectives). This will form the basis of the Directors performance agreement scorecards as well as the basis for departmental performance indicators.

Section 16 - Annual Budgets and Service Delivery Agreements

Refer to Annexure 2, 'Supporting Table SA32: List of external mechanisms'. Council currently has two service delivery agreements of this nature in place at the present.

Section 17 - Contracts Having Future Budgetary Implications

'Supporting Table SA33: Contracts having future budgetary implications' in Annexure 2 discloses all contracts which will impose financial obligations on the municipality beyond the three years covered in the annual budget. Since Knysna falls into the category of municipalities with approved total revenue greater than R250 million, all contracts with an annual cost greater than R1million and for longer than three years must be disclosed.

Section 18 - Capital Expenditure Details

Capital details are shown in Annexure 2:

- 'Supporting Table SA6: Reconciliation of IDP strategic objectives and budget (capital expenditure)'
- 'Supporting Table SA34a: Capital expenditure on new assets by asset class'
- 'Supporting Table SA34b: Capital expenditure on the renewal of existing assets by asset class'
- 'Supporting Table SA34c: Repairs and maintenance expenditure by asset class'
- 'Supporting Table SA36: Detailed capital budget'

The budget for 2015/16 is R92.5 million. The majority of the capital budget remains for trading services (52%), new housing and community services (43%).

Projects delayed from previous years

A list of capital programmes or projects delayed from previous financial years is shown in Annexure 2, 'Supporting Table SA37: Projects delayed from previous financial year/s'.

Section 19 - Legislation Compliance Status

The disclosure on legislation compliance must provide a brief summary of the status of the implementation of legislation applicable to municipalities, including progress made or delays experienced in implementation.

Municipal Finance Management Act - No 56 of 2003

The MFMA became effective on 1st July 2004. It covers all aspects of municipal finance including budgeting, supply chain management and financial reporting.

The MFMA and the budget

The following explains the budgeting process in terms of the requirements in the MFMA. It is based on National Treasury's guide to the MFMA.

The MFMA requires a Council to adopt three-year capital and operating budgets that take into account, and are linked to, the municipality's current and future development priorities and other finance-related policies (such as those relating to free basic service provision).

These budgets must clearly set out revenue by source and expenditure by vote over three years and must be accompanied by performance objectives for revenue and expenditure, a cash flow statement and any particulars on borrowings, investments, municipal entities, service delivery agreements, grant allocations and details of employment costs.

The budget may be funded only from reasonable estimates of revenue and cash-backed surplus funds from the previous year and borrowings (the latter for capital items only).

Budget preparation timetable

The budget preparation timetable is prepared by senior management and tabled by the Mayor for Council adoption by 31 August (ten months before the commencement of the next budget year).

Budget preparation and review of IDP and policy

The Mayor must co-ordinate the budget preparation process and the review of Council's IDP and budget-related policy, with the assistance of the Municipal Manager.

The Mayor must ensure that the IDP review forms an integral part of the budget process and that any changes to strategic priorities as contained in the IDP document have realistic projections of revenue and expenditure. In developing the budget, the management must take into account national and provincial budgets, the national fiscal and macro-economic policy and

other relevant agreements or Acts of Parliament. The Mayor must consult with the relevant district Council and all other local municipalities in that district as well as the relevant provincial treasury and the National Treasury when preparing the budget, and must provide the National Treasury and other government departments with certain information on request.

This process of development should ideally occur between August and November, so that draft consolidated three-year budget proposals, IDP amendments and policies can be made available during December and January.

Tabling of the draft budget

The initial draft budget must be tabled by the Mayor before Council for review by 31 March.

Publication of the draft budget

Once tabled at Council, the Municipal Manager must make public the appropriate budget documentation and submit it to National Treasury and the relevant provincial treasury and any other government departments as required. At this time, the local community must be invited to submit representations on what is contained in the budget.

Opportunity to comment on draft budget

When the draft budget is tabled, Council must consider the views of the local community, the National Treasury and the relevant provincial treasury and other municipalities and government departments that may have made submissions on the budget.

Opportunity for revisions to draft budget

After considering all views and submissions, Council must provide an opportunity for the Mayor to respond to the submissions received and if necessary to revise the budget and table amendments for Council's consideration.

Following the tabling of the draft budget at the end of March, the months of April and May should be used to accommodate public, government and Council comment and to make any revisions that may be necessary. This may take the form of public hearings, Council debates, formal or informal delegations to the National Treasury, provincial treasury and other municipalities, or any other consultative forums designed to address stakeholder priorities.

Adoption of the annual budget

The Council must consider the approval of the budget by 31 May and must formally adopt the budget by 30 June. This provides a 30-day window for Council to revise the budget several times before its final approval. If a Council fails to approve its budget at its first meeting, it must reconsider it, or an amended draft, again within seven days and it must continue to do so until it is finally approved - before 1 July.

Once approved, the Municipal Manager must place the budget on the municipality's website within five days.

Budget Implementation

Implementation management - the Service Delivery and Budget Implementation Plan (SDBIP)

The Municipal Manager must within fourteen days of the approval of the annual budget (by 14 July at the latest) submit to the Mayor for approval a draft SDBIP and draft annual performance agreements for all pertinent senior staff.

An SDBIP is a detailed plan for implementing the delivery of municipal services contemplated in the annual budget and should indicate monthly revenue and expenditure projections and quarterly service delivery targets and performance indicators.

The Mayor must approve the draft SDBIP within 28 days of the approval of the annual budget (by 28 July at the latest).

This plan must then be monitored by the Mayor and reported on to Council on a regular basis.

Managing the implementation process

The Municipal Manager is responsible for implementation of the budget and must take steps to ensure that all spending is in accordance with the budget and that revenue and expenditure are properly monitored.

Variation from budget estimates

Generally, Councils may incur expenditure only if it is in terms of the budget, within the limits of the amounts appropriated against each budget vote - and in the case of capital expenditure, only if Council has approved the project.

Expenditure incurred outside of these parameters may be considered to be unauthorised or, in some cases, irregular or fruitless and wasteful.

Other Legislation

In addition to the MFMA, the following legislation also influences Municipality budgeting;

The Division of Revenue Act and Provincial Budget Announcements

Three year national allocations to local government are published per municipality each year in the Division of Revenue Act. The Act places duties on municipalities in addition to the requirements of the MFMA, specifically with regard to reporting obligations.

Allocations to the Municipality from Provincial Government are announced and published in the Provincial budget.

Section 18 of the MFMA states, “annual budgets may only be funded from reasonably anticipated revenues to be collected”. The provision in the budget for allocations from National and Provincial Government should reflect the allocations announced in the DORA or in the relevant Provincial Gazette.

The Municipal Systems Act - No 32 of 2000 and Municipal Systems Amendment Act no 44 of 2003

One of the key objectives of the Municipal Systems Act is to ensure financially and economically viable communities. The requirements of the Act link closely to those of the MFMA. In particular, the following requirements need to be taken into consideration in the budgeting process;

- Chapters 4 and 5 relating to community participation and the requirements for the Integrated Development Planning process.
 - Chapter 6 relates to performance management which links with the requirements for the budget to contain measurable performance objectives and quarterly performance targets in the Service Delivery and Budget Implementation Plan.
 - Chapter 8 relates to the requirement to produce a tariff policy.
- Section 20 - Other supporting documents

Section 20 - Other supporting documents

Various supporting documents are attached to enable the reader a fuller understanding of the various processes involved. These are the following:

Annexure 1 – Main Budget Tables

Tables A1 to A10

Annexure 2 – Supporting Budget Tables

Supporting Tables SA1 to SA37

Annexure 3 – Tariffs, Charges and Fees for 2015/2016

The average increases for 2015/2016 are:

Service	Domestic	Non-domestic
Assessment rate in Rand	10% on average	10% on average
Refuse	10%	10%
Sanitation	10%	10%
Water	12%	12%
Electricity	*12.25% on average	*12.25% on average
<i>* See tariff schedule for full detail</i>		

Annexure 4

Municipal Budget Circular for the 2015/16 MTREF - MFMA Circulars 74 & 75

Annexure 5 – Policies

- Budget
- Cash, liability & investment management
- Credit control
- Funding & reserves
- Indigent relief & social rebates
- Property rates
- Supply chain management
- Tariff

Annexure 7

Draft SDBIP

Section 21 - Municipal Manager's Quality Certification

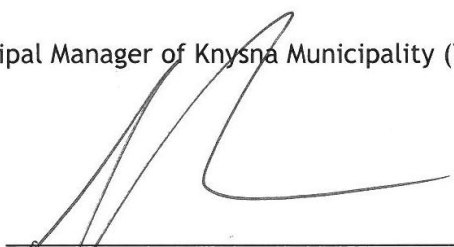
An annual budget and supporting documentation must be covered by a quality certificate in the format as per page 68 of the Government Gazette 32141 - 17 April 2009.

QUALITY CERTIFICATE

I, Grant Easton, Acting Municipal Manager of Knysna Municipality, hereby certify that the annual budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the annual budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

Print Name GRANT EASTON

Acting Municipal Manager of Knysna Municipality (WC048)

Signature 

Date 24/3/15